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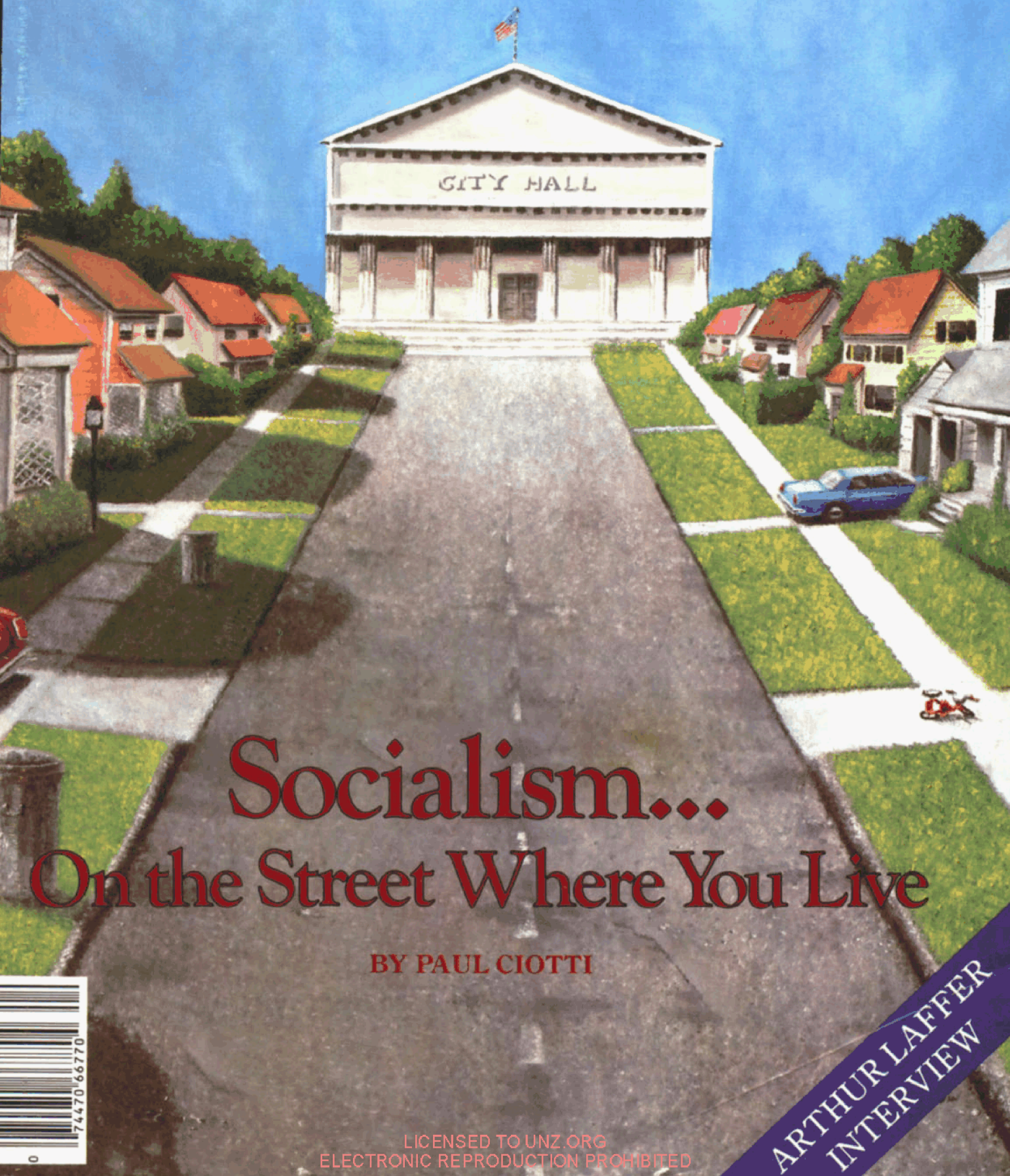
A Reply to George Will
Freeing the Phones
Poland's Prospects



Socialism...
On the Street Where You Live

BY PAUL CIOTTI

ARTHUR LAFFER INTERVIEW

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THE FASTEST GROWING CHURCH IN THE WORLD

by Brother Keith E. L'Hommedieu, D.D.

It's quite safe to say that of all the organized religious sects on the current scene, one church in particular stands above all in its unique approach to religion. The Universal Life Church is the only organized church in the world with no traditional religious doctrine. In the words of Kirby J. Hensley, founder, "The ULC only believes in what is right, and that all people have the right to determine what beliefs are right for them, as long as they do not interfere with the rights of others."

Reverend Hensley is the leader of the worldwide Universal Life Church with a membership now exceeding 11 million ordained ministers of all religious beliefs. Reverend Hensley started the church in his garage by ordaining ministers by mail. During the 1960's, he traveled all across the country appearing at college rallies held in his honor where he would perform mass ordinations of thousands of people at a time. These new ministers were then exempt from being inducted into the armed forces during the undeclared Vietnam war.

In 1966 Reverend Hensley was fighting the establishment on another front. The IRS tried to claim the ULC wasn't a legal church and proceeded to impound the ten thousand dollars in the church bank account. The feisty Hensley filed suit against the IRS in federal district court for return of the funds and to permanently establish the ULC as a legal tax exempt entity. On March 1, 1974 Judge James F. Battin ruled against the IRS in his decision which stated, "Neither this court or any branch of this government will consider the merits or fallacies of a religion. Nor will the court praise or condemn a religion. Were the court to do so, it would impinge upon the guarantees of the First Amendment." The judge then ordered the IRS to return the impounded money and to grant the Universal Life Church its tax exempt status.

Reverend Hensley has stated that he believes a church is people and not just a fancy building. He also believes in total freedom and equality for all people. The ULC will ordain anyone without regard to religious beliefs, race, nationality, sex or age.

The ULC's success formula is both effective and unquestionably legal. After a person has become an ordained minister, he or she can join with two other people and form their own Universal Life Church. These three people then make up the Board of Directors consisting of a Pastor, a Secretary and a Treasurer. The ULC will then grant the group the use of its legal church charter complete with both federal and state tax exempt numbers. The newly formed church may then open a bank account in the church's name. Any member of the church can legally donate up to 50% of his or her outside income to the church and take a corresponding tax deduction. The church in turn can pay the complete housing cost of its minister including rent or mortgage payment, insurance, taxes, furnishings and repairs. The church can also provide the minister with full use of an automobile as well as pay for travel and educational expenses. None of these expenses are reported as income to the IRS. Recently a whole town in Hardenburg, New York became Universal Life ministers and turned their homes into religious retreats and monasteries thereby relieving themselves of property taxes, at least until the state tries to figure out what to do.

Brother L'Hommedieu is Chairman of the Board of Trustees of the Sacerdotal Order of the Universal Life and serves on the Board of Directors of the International Universal Life Church, Inc.

Churches enjoy certain other tax benefits over the common man on the street. For instance, a church can legally buy and sell real estate or stocks and bonds completely tax free. It can receive tax free income from bank deposits or mortgages. Many churches own large publishing, recording, or other related businesses like hospitals, clinics and schools without paying any income tax.

A church can sponsor any kind of fund raising event such as a concert, play or even bingo. Churches are also exempt from paying inheritance taxes. When the pastor of the church dies, the Board of Directors simply appoints a new pastor and the church goes on.

Reverend Hensley has stated that he personally doesn't believe in the tax exempt status of churches. However, if the government is going to give a free ride to Billy Graham and the Pope, then why not let everybody participate in these blessings. Furthermore, he backs his words up by offering to defend in court the tax exempt status of his congregations.

Since the church was founded in 1962, it has attracted members who are movie and TV personalities, businessmen, government officials, lawyers, and doctors as well as all types of regular working people. During the last 15 years the Universal Life church has blossomed into a full blown grass roots populace movement. Reverend Hensley is ordaining ten thousand new ministers a week and predicts that the church will have over 20,000,000 members by the early 1980's. In addition, requests for interviews and TV appearances continue to pour in.

Anyone who is a member of the ULC will tell you that the ULC is destined to change the world. By unifying mankind into a brotherhood of freedom orientated individuals, each respecting the other's right to live life as they see fit, the Universal Life Church hopes to put an end to all wars. Reverend Hensley admits that this is a pretty monumental task to accomplish, but he also points out that he is already well on the way to reaching his goal.

Rev. Hensley invites all those interested in becoming an ordained minister and receiving complete information and Minister's Credentials, to send a $10[00] tax deductible donation to the Universal Life Church, 1335 Seabright Ave., Dept. **812**, Santa Cruz, CA 95062

How to launch your own business for under $1,000 and make $25,000-$50,000 a year!

Management consultant David D. Seltz is one of the nation's foremost authorities on small businesses. He has written 12 books on the subject and more than 2,000 articles in such publications as *Nation's Business, Dun's Review, Business Management,* etc.

He has spent 14 months researching 18,292 small business opportunities to compile the first complete directory of *the most profitable small businesses* you can start in your spare time for under $1,000 (many for under $500).

He has published his findings in a book called, *"A Treasury of Business Opportunities,"* published for anyone who's dreamt of owning a business.

In its fascinating pages, you'll learn...

- How Michael S. makes $50,000 a year in a small community by providing a little-known, simple service needed by the graduating class of every high school and college. His student customers are easy sales and his work consists mainly of placing phone calls.
- How John H. runs a weekend business that uses other people's vacant land to rake in as much as $10,000 profit per weekend. No equipment, no investment, no employees needed!
- How James P. charges $2,000 for a simple service most businesses need, but few people are aware of. He has so much business, he doesn't even advertise.
- How Ronald P. earns $100 per week on a $200 investment supplying a service needed by most storefront merchants.

You'll learn about a unique new product that's selling like wildfire to religious people and gives you a 500% markup. You'll discover an easy-to-start business that nets about $25,000 profit in the summer months alone. You'll be given the amazing inside story of a business that requires so little of anything, you could run it out of a phone booth. Yet it's quietly making better than $50,000 a year for scores of men and women.

And this is just the beginning! You'll learn how to rake in enormous finder's fees for putting two types of common business clients in touch with each other. You'll discover why certain national manufacturers will pay you upwards of $40,000 a year for making local contacts for them. You'll see how to start a business in which moonlighters work their tails off to earn you $50,000 a year.

You'll learn where to haul away crates of what some businesses consider "junk"—but which other businesses need desperately and will pay you as much as $60,000 a year for. You'll discover a product that costs pennies to make, sells for $5, and is wanted by thousands in just about every community. And you'll be shown how to start an exclusive kind of club which can bring you more than $50,000 a year from people who'll feel *privileged* to pay you a hefty membership fee for the right to belong!

You'll see how to sell *a few sheets of paper* for as much as $2,000 to businesses all over your home town . . . . You'll read about the "dead flower" strategy that requires only one visit per customer per month yet gives back up to $25,000 per year in return. . . . . You'll discover how to get people all over your community to gladly lend you their cars and then just as gladly pay you up to $50,000 a year to perform one simple, nonmechanical act with those cars.

You'll read the remarkable story behind one little-known business that is not only depression-proof, but actually does fantastically well when the economy grows worse. Not only are the profits potentially enormous in this business, but there is this unexpected advantage: Simply issuing your own business card as a dealer enables you at once to buy men's suits for $22, metal tennis rackets for $8, electric typewriters for $85, and dozens of other items far below wholesale.

If you or your spouse like to "putter" around the kitchen, just turn to page 68 of this book and see how you can make that puttering yield you a spare-time income of $25,000 a year.

And if that's not enough to get you started in your own little "goldmine" business, wait till you discover . . .

- The instant travel business that gives you up to 50% discounts when you wish to go on a trip.
- The simple idea that lets you run your own sweepstakes—with *someone else* putting up the prizes!
- The method for earning thousands of dollars on other people's inventions.
- 23 different ways your car or truck can help produce profits every day.
- The way to turn each of your handy-man friends into a spare-time income of $25,000 a year for you.
- The technique for having your products displayed and sold in the finest homes in your area—with sales as high as $500 per home. This one strategy alone may be worth 100 times the cost of the book—and it's all yours on page 217.

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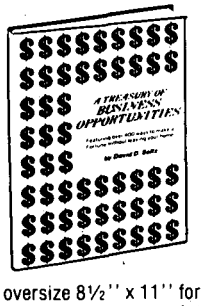

This oversize 8½" x 11" format book uncovers dozens of little "goldmine" businesses. It gives you everything you need to get started in your own profitable business, in your spare time, with minimum capital.

R-4/81

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Please rush my copy of *"A Treasury of Business Opportunities,"* by David D. Seltz, featuring the 154 most profitable businesses I can start in my spare time for under $1,000. My money back in full if I'm not 100% delighted.

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Forming A Corporation

Not Just For The Wealthy

With a small, one-person business, the advantages can be tremendous

Maybe you think forming your own corporation is just for the rich. Many people believe that. But it's just not true. Nearly all wealthy people own corporations. But anyone can form one at surprisingly low cost.

Thanks to a revolutionary new method, you can set up your own corporation without expensive lawyers, all by mail and without ever leaving home. And it's 100% safe, ethical, and legal.

Your own small corporation is our country's number one way to financial success. This year the IRS tells us there will be at least 5,000 new millionaires. Over 95% of them built their fortunes through a privately owned corporation. Therefore, a successful, privately owned corporation represents the best of the American Dream.

And you don't need a big staff or big money.

Most corporations are started with little or no capital, and with only one employee–the owner.

A business revolution has occurred in recent years. Nearly half a million people have already been helped in forming small corporations with the aid of a remarkable book. It's called: *How To Form Your Own Corporation Without A Lawyer For Under $50* by Ted Nicholas. It's now in its fully revised and updated 12th edition. And now you can get your own personal copy to examine–without risk–to learn how a corporation applies to you and how you can reap maximum benefits.

Most men and women who have used the incorporation system outlined in the book are simple one-person business operations. These businesses were often started on a part-time basis by people right in their own homes. You'll save from $300 to over $2,000 in unnecessary legal fees by the do-it-yourself simplified method. Tear-out forms are right in the book; certificate of incorporation, minutes, by-laws, everything you need. And you can complete the forms in less than five minutes!

You too can start your small business corporation in your spare time while you keep your present job. Another possibility is that you may be able to turn your present job into a corporation of your own. And you'll be shown exactly how to do this.

Your own corporation gives you personal protection. Your personal liability will be limited just to what you put in the corporation itself. Your home, furniture, cars, and personal cash are all protected in the event of any business disaster.

You'll see how to begin with little or no capital–*zero* capital, if you prefer.

All you need is a marketable idea, product or service. Then your potential for building real wealth is enormous. Ted Nicholas' remarkable book will help trigger many new ideas.

Your own corporation can be used as a personal tool to gain all types of legitimate tax deductions. It will become *the ultimate tax shelter* for you. For example, a new car purchase or lease is tax deductible over the life of the car. So are gasoline expenses and repairs. The same goes for other equipment used in your business. There are *hundreds* of legal tax deductions.

If you have an office at home, you can pay rent to yourself and get tax deductions for doing so.

You may choose to set up a lucrative pension and profit-sharing plan with yourself as the main beneficiary. You can gain far greater benefits than unincorporated people do.

As an owner of a corporation, you'll have plenty of company. Over 30,000 new ones are formed each and every month. Ninety-eight per cent of them are small businesses, often just one individual working from home.

We live in a land wherein the corporation is king. Even the government recognizes this. To encourage small business expansion, the tax on small corporations was recently *reduced* to only 17% of up to the first $25,000 in income. And this is *after* all the tax deductions have been taken.

As attractive as it is, incorporation is not for everyone and may not be for you. However, the book will help you decide if it would be advantageous for you now or perhaps later. All the advantages and disadvantages are reviewed. If you decide to incorporate, it can be done by mail within 48 hours. You never have to leave the privacy of your home.

The author started his business without any capital at the age of 22. Without credit or experience, he raised $96,000 to begin a confectionary business. From that starting point grew a chain of 30 stores. At the age of 29, he was selected as one of the outstanding businessmen in the nation. This resulted in an invitation to the White House to meet the President.

He wrote the book *How To Form Your Own Corporation Without A Lawyer For Under $50* because he felt many more people could become corporate presidents of their own companies. The book has become the largest single source of new corporations in America.

Just picture yourself president of your own corporation. The book gives you the information you need to make your decision.

As a bonus for ordering the book now, we'll send you absolutely free a portfolio of valuable information. It's called "The Income Plan" and normally sells for $9.95. It describes a unique plan that shows you how to convert most any job into your own corporation. You'll increase your take-home pay by up to 40% without an increase in salary or even changing jobs in many cases.

If you are an employer, learn how to operate your business with independent contractors rather than employees. This means that you'll have no payroll records or withholding taxes to worry about. And you'll be complying with all IRS guidelines. "The Income Plan" includes forms, examples and sample letter agreements to make it possible.

As publishers, we guarantee your purchase in the fairest way known. If you feel the book is not all that we've described, return it undamaged within two weeks and we'll promptly and courteously refund your money. If you should decide to return it, you may keep the bonus, "The Income Plan", for your trouble.

To get your copy, write the words "Corporation Book and Bonus" on a plain sheet of paper, along with your name and address. Enclose a check or money order for $14.95. There is no sales tax on your order and your purchase price is tax deductible. Mail your order to Enterprise Publishing, Inc., Dept. RE-12C, 725 Market Street, Wilmington, Delaware 19801.

Reader and Reviewer Comments about this remarkable book:

"Would have been deterred from incorporating if we had to use normal routes and expenses."

Michael G. Bate
Independent Carpets of America, Inc.
Rochester, NY

"This book succeeds...because if fills a real need. Brought public information that previously had to be bought from an attorney."

Publisher's Weekly

"Anyone thinking of incorporating...should not skip any pages."

Sacramento Bee

"Impressed by speed, efficiency and cost."

Roger Beardwood
Woodcat Investments, Inc.
France

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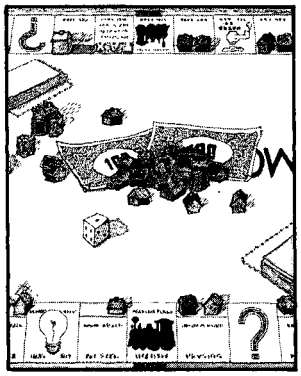
April 1981/Vol. 12, No. 12

reason

A forum for analysis and commentary, with an emphasis on individual liberty.



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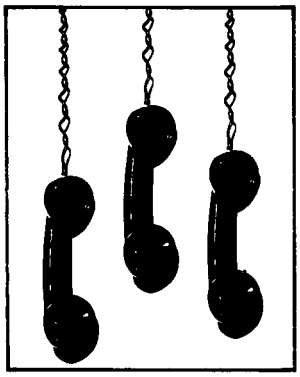

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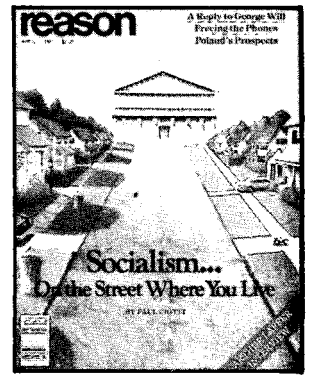

Cover illustration by Christopher Brennan

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BACK ISSUES: Write for back issue list for current prices. Volumes 1-4 are available on microfilm from University of Southern California Library Micrographics Dept., University Park, Los Angeles, CA 90007. Volumes 5 and up are available from Xerox University Microfilms, 300 North Zeeb Rd., Ann Arbor, MI 48106. Indexed in *America: History and Life, Historical Abstracts,* and *Public Affairs Information Service Bulletin.*

editor's notes

Our investigative story on Love Canal has generated considerable interest. Among the first to call was CBS Evening News, whose coverage, unfortunately, was delayed by the ongoing hostage release. *Science News* did a good write-up in its January 17 issue, and *Fortune* is working on a story on the piece. The Zodiac News Service report on it led to radio interviews with author Eric Zuesse in Buffalo, Grand Rapids, and New York (thus far). Because of the interest in the story, we have made reprints, complete with four-color cover. Single copies are available for $1.00; quantities from 10 to 100 are 75¢ each, while supplies last.

Several other REASON articles have also been in demand. December's interview with economist Thomas Sowell was reprinted in *The Register* of Orange County, California. That, in turn, led to a reprint request from the *Gastonia Gazette* in Sowell's North Carolina birthplace. Sam Blumenfeld's "Self-Help Schooling in South Boston" (Nov.) has been the object of several reprint requests, most recently from ERC Publishing in Vancouver. And the Social Issues Resources Series in reprinting two more REASON articles for high school use: Michael Monson's "The Dirty Little Secret Behind Our Drug Laws" (Nov.) and Sylvia Sanders's "Data Privacy: What Washington Doesn't Want You to Know" (Jan.).

REASON contributors have landed several top jobs in the Reagan administration. Murray Weidenbaum (Oct. 1976) has been appointed head of the Council of Economic Advisors. Supply-side economist Paul Craig Roberts, whom we first published in August 1973, is now assistant secretary for economic policy in the Treasury Department. Long-time contributor John McClaughry is a senior policy advisor on the White House staff, while Doug Bandow, whom we discovered last year, has landed a job on Martin Anderson's White House domestic policy staff. It pleases me to see such sensible people in high places, and it's nice to know that REASON helped to give their ideas visibility.

Readers of last September's cover story on the separatist revolt in the New Hebrides may be amused to learn that all the Americans mentioned in that story as being in sympathy with the rebel cause—including some who have never been near the South Pacific—have been declared "prohibited immigrants" by the socialist government of what is now called Vanuatu. Included on the list also are 110 French citizens—many long-time residents and property owners—who have been expelled, several Australian journalists, and everyone whose name ever appeared in any literature of the Phoenix Foundation (including your editor, who was once on its board). But the Vanuatu police aren't as clever as they think. Their list excludes at least one political operative we know of, who presumably remains at liberty to visit Bali Ha'i.

Even our letters to the editor are making news these days. Subscriber Robert Dugger's January letter describing a citizens' group effort to disincorporate the tiny new city of Apache Junction, Arizona, caught the eye of Bob Lissit, one of the producers of *NBC Magazine.* Within days, a camera crew and reporters were on the scene; as a result, on Friday, January 16, millions of viewers saw a 12-minute segment on Apache Junction. Talk about the power of the press!

As predicted in our January cover story on data privacy, the Public Cryptography Study Group has given the National Security Agency what it wants: a recommendation that research on secret codes be screened by the NSA before publication. At a meeting on February 6, the nine-member study group became the first academic group ever to propose a system that could lead to a government agency's prior restraint of publication. Although authors and journals would be allowed to ignore NSA requests for changes, the study group calls this voluntary system "experimental."

The Reason Foundation is moving up. In February we moved into new quarters at 1018 Garden Street. The new place gives us 50 percent more space, including a library/conference room. Also in February we added a full-time business manager, Madelyn Romaszewski. Madelyn comes to us from Connecticut, where she managed direct-mail operations for Save the Children Federation. She will put her considerable skills to use upgrading our subscription fulfillment operations and developing a bookstore and newsstand distribution program. Over the next two years we'll be adding to our staff as expansion plans proceed. (Circulation this month has passed 20,000!)

—R. P.

Gold: $200 or $2000?

Where are silver and gold prices headed next? Will you see gold plunge to $200 — or soar to $2000 an ounce?

And how about silver? Has it bottomed out? What about the Hunts? How much do they still dominate the market?

Why did silver and gold trade down from their record highs? Where is the buying coming from? Who are the sellers? Are silver and gold supplies moving to strong or weak hands?

What's ahead — further declines or a renewed bull market? How will Reagan's policies affect silver and gold prices? Is it time to buy? To sell? Or should you hold?

For answers to questions like these, subscribe now to the **Silver & Gold Report.** The **Silver and Gold Report** is *not a cheerleader* for silver and gold. We're in the business of selling information and advice — not buying and selling silver and gold.

Sometimes we're bullish; sometimes we're bearish. Sometimes we're right; and sometimes we're wrong. But we're always impartial and fiercely independent — and our readers appreciate it.

One reader wrote in to say:

"I hereby nominate you for 'champion of the world' gold prognosticator."
—S. L., Woodmere, NY

And other subscriber comments include:

"You advised me last year to sit on my silver and I did. Now, it is worth $100,000 more!" *—F. R., Isle, MN*

"Just want to say how much I enjoy your service. It is tops. May you and your first class staff long continue."
—R. S., Ontario, CN

"I followed a recent **Silver & Gold Report** investment suggestion and, as a result, paid for the cost of a year's subscription many, many times over."
—O. N., Leeds, ND

"My subscription to the **Silver & Gold Report** has already saved me a great deal of money and I consider your newsletter very important and most valuable to me." *—F. C. A., Haines City, FL*

"The Stage is Set For the Big Runup."
– Silver & Gold Report, May 1979

In the spring of 1979, numerous investment services that focus on silver and gold advised selling — and even going short. They noted the 17% rise in gold from $225 an ounce at the beginning of the year to $265 in late May. They also noted the "spectacular" 43% rise in silver from $6.00 to $8.60 an ounce in the same time period. They concluded that the rises in silver and gold were over for the year.

Frankly, we at the **Silver & Gold Report** were tempted to follow the herd and advise profit-taking. Since our first major investment recommendation issue in late July 1977: "Now Is the Time to Buy," silver had soared 91% and gold 89%. Yet, we advised that much higher prices were ahead. We recommended that our subscribers hold their positions and even add to them on downswings — and events bore us out with a vengeance when prices skyrocketed.

Then, early in December, with silver above $18.00 and gold above $425 an ounce, we were again tempted to advise profit-taking. After all, our subscribers who had followed our advice were already giddy with profits. Yet, we advised that the dramatic price rises were not over yet and headlined: "If There Was Ever a Time to Own Silver & Gold — This Is It." Soon after, silver almost tripled to top $50 an ounce and gold doubled to top $850 an ounce.

Following this unprecedented runup, silver and gold prices started back down again. Frankly, we missed the peak. But not by much. Shortly before, in our Early January 1980 issue, we interviewed silver expert Scott Dial, who warned: "Every previous big move in silver has been followed by a 40% - 60% correction. No market has ever gone straight up and stayed there."

And shortly after the peak, with silver at $33 an ounce and gold at $633 an ounce, we again warned our readers: "The market is now very uncertain and is strictly a riverboat gambler's game." As you probably know, the bottom fell out of the silver market shortly afterwards. And gold sank below the $500 mark.

Following this dramatic downturn, silver and gold prices rebounded slightly — with gold now trading in the low $600's and silver around $15 an ounce.

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USSR: The Crumbling of an Empire

editorial

As I write, Soviet troops are poised on the border of Poland, and the world once more is holding its collective breath. Will it be another Hungary, another Czechoslovakia, another Afghanistan? Whatever the Kremlin leaders decide, they have trapped themselves in a no-win situation.

If they fail to invade, they will have given their consent to the de facto overthrow of Marxist-Leninism in a vital component of their empire. Besides its symbolic value as a confession of ideological bankruptcy, such a move would entail direct, practical risks. Not only would it encourage the workers of Hungary, Czechoslovakia, Lithuania, the Ukraine, et al. to go and do likewise, it would also destroy a vital link in the Warsaw Pact's logistics system. (The USSR's 19 divisions in East Germany are crucially dependent on supply lines through Poland.)

If the Soviets do invade, however, they will pay a heavy price. Once more they will have had to resort to naked force to maintain their hold on the inhabitants of a workers' paradise. The threat of protracted resistance is very real—not just from Polish workers but from the Polish army as well. By invading, the Kremlin will cut off any possibility of Western banks rolling over the $12 billion in loans to Poland coming due this year. They will also demolish the lingering prospects of SALT talks, their $12-billion gas pipeline from Siberia to West Germany, and further Western grain bailouts.

In his stunningly prophetic book *Will the Soviet Union Survive Until 1984?,* Andrei Amalrik 12 years ago predicted a US-China *rapprochement,* revolt by Eastern European satellites, and internal decay in the Soviet Union, fueled by nationalistic rivalries and the failures of central planning. What keeps the lid on, he wrote, is the gradual improvement in Soviet living standards. Nevertheless, he warned, "a sharp slowdown, a halt or even a reversal in the improvement in the standard of living would arouse such explosions of anger, mixed with violence, as were never before thought possible."

Such a reversal is now occurring (and not just in Poland). As the chilling article "Russian Disorders" by George Feifer (*Harper's,* February) makes eloquently clear, the Soviet economy is falling to pieces. "The centralized planning Russians used to regard as the solution to major economic problems is now considered a condemnation to economic absurdity." Huge shortages and surpluses, food and toilet-paper rationing, soaring prices, bloated bureaucracies, diversion of *18 percent* of GNP to the military—these are a few of the obvious symptoms.

More ominous is the demoralization brought on by people's disillusionment with a system that has promised them material and spiritual progress—but has given them fraud, manipulation, and deceit as a way of life, simply to get enough to eat in an economy that cannot deliver the goods.

Twelve years ago this malaise and cynicism were the concerns of Amalrik's intellectual strata. Today, as Feifer demonstrates, they are the concerns of the demoralized working class. Alcoholism has become the national pastime—one-third of all consumer spending in food stores is for alcohol. And the result has begun showing up in statistics: alone among modern nations, life expectancy in the Soviet Union is declining, infant mortality is increasing. The country is slowly committing suicide.

What should be clear from all this is that the increasingly popular view of the Soviet Union as an all-powerful behemoth is simply not true. "In the last analysis the main source of Soviet strength is Western incomprehension of the great and growing internal tensions which threaten the fabric of the Soviet system," says Leszek Kolakowski, the ex-communist philosopher who was expelled from Poland in 1968. "If the Soviet leaders suspected for one moment that the Western world knew what *they* know about their system, their worries about the staying power of the Soviet Empire would increase immeasurably" (*Encounter,* January).

What does all this imply for US foreign policy? To begin with, while there is no question that US defenses must in some respects be strengthened, there is hardly call for the near-panic expressed in some quarters on the right. The Soviets are *not* 10 feet tall.

The salient fact is that the Soviet empire is increasingly vulnerable to disintegration. The aim of US policy should be to hasten the process, if possible—without triggering either a nuclear war or a situation in which the Kremlin can fall back on whipping up patriotism to preserve its control. The latter prospect should make for caution about directly threatening moves—covert arms shipments to potential rebels, for instance. But encouraging the liberalization of policies in China (while avoiding military aid) would serve very well to keep the pressure on the Soviets.

And there is wide scope for other sorts of pressure. On the one hand, since it is economic issues that have made real to Soviet workers the manifest failures of socialism, there's a good case for not bailing out the commisars. At the same time, increasing the amount of information available about life in the West would increase the likelihood of Soviet citizens demanding reforms.

More fundamentally, the *moral* case for capitalism needs to be articulated in the West and communicated to the East. No one can read Feifer's brilliant piece without seeing that socialism's moral bankruptcy has become obvious even to the Soviet workers. "More and more now regard [socialism] as poison to social relationships as well as individual consciences. 'Everyone knows that to get ahead in the country, it is almost required that you be a liar or a cheater—often a swine,'" one of Feifer's Russian friends told him. Yet again and again he found that "with their old ideals and hopes shattered, most people have none to replace them."

Here is the opportunity of our lifetime. "One cause around which we might be able to build something like an ideology is liberty," a cautious Kolakowski tells his interviewer. Indeed. Some of us are already trying.

Robert Poole, Jr.

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letters

Turning the Tables on 1984

Congratulations are due Sylvia Sanders ("Data Privacy: What Washington Doesn't Want You to Know," Jan.) for a very lucid analysis of the recent progress in cryptology. (The NSA probably wishes she had encrypted it and thrown away the key.)

According to *Lambda* magazine (Fourth Quarter, 1980), Professor Rivest now has in hand a custom integrated circuit, fabricated by Hewlett-Packard, which implements the NSA public-key cryptosystem. Data can be transmitted at 1200 baud using a 512 bit key. With current technology and the best known factoring algorithm, it would take a computer over 2 million years (6.7×10^{19} operations at one microsecond each) to break such a code. By interleaving two chips to achieve 2400 baud, digitally compressed voices can be encoded. Or the hybrid method of transmitting DES keys can be employed, since the federal Data Encryption Standard seems secure even against the NSA if multiple encryptions are performed using separate keys.

These facts ought to have a sobering impact on computerphobes. For years antitechnologists have warned that computers and electronic spying would turn *1984* into reality. Suddenly it appears they'll have the opposite effect of making the individual totally secure against government intrusion.

Off-the-shelf hardware already exists (for less than the price of an auto) capable of encrypting all personal records and communications. The decryption key, locked in a person's mind, is then protected by the Fifth Amendment or a "convenient" but highly plausible lapse of memory. It may even be protected against drugs and torture, since a disorganized mind won't easily recall a long string of pseudorandom numbers.

The new cryptology vividly demonstrates the awesome power of an idea. A handful of electronic engineers invented a radical new concept for digital data communications, applied an apparently unrelated curiosity from theoretical mathematics, and published a couple of scientific papers—and overnight turned the Nation Security Agency, along with every other intelligence agency on earth, into a thrashing and dying dinosaur.

This knowledge is now too widely dispersed to be suppressed. For the first time in history the crucial spheres of information and communications are passing beyond the control of government supremacists. It's a quiet revolution that I believe will profoundly advance the cause of individual liberty.

Daniel Wiener
Simi Valley, CA

A Great January!

I was very impressed with the thoroughness and accuracy of Sylvia Sanders's article on data privacy (Jan.) It is inevitable that with so complex an issue, a writer will let some strings stay loose; I found only one in her article. I think the conclusion of the Data Encryption Swindle episode may interest your readers.

In the July 1979 issue of *IEEE Spectrum*, less than two years after the Senate Select Committee on Intelligence assured the American public that the "Data Encryption Standard" would provide security for at least 5-10 years, Martin E. Hellman demonstrated a method for breaking the DES which, by using precomputed tables, required only $10 worth of computer time (at 1979 prices—about $3 today) per message. While the precomputation of the tables would require about three years' worth of computer time on a $5-million computer, the NSA has over a dozen such machines and could have put the tables together in three months.

The Walter Parchomenko article ("Reporting on Soviet Dissent," Jan.) was also interesting and provided a wealth of information seldom found in American media. Yet, while it is true that the Russian government's attempts to portray all dissent in their empire as inspired by "antinational cosmopolite-zionist elements," which is official jargon for "Jews," are unwittingly helped by the emphasis on the Jews among the dissidents portrayed in American newspapers, the reason for this emphasis is no dark mystery. The press, like other private services, responds to the market—and American Jews have made it clear, through letters flooding editorial offices whenever Jewish protests in the Soviet Empire were not adequately reported, that such protests interested them, as the newspapers' readers and advertisers. Unfortunately, the only groups who have let their interest be known to newspaper editors have been Jews, and, more recently—from about the time of Alexander Solzhenitsyn's arrival in this country—the Russians. The silence of the Baptists and the Catholics, their failure to tell the media that they want to hear more about their persecuted brethren in the Great Soviet Prison, has been scandalous—especially in view of the fact that both groups are more numerous than Jews and many of their members more influential....

Adam V. Reed
La Jolla, CA

Contract and Constitution

It is unfortunate that Professor Siegan's excellent article "The Decline and Fall of Economic Freedom" (Jan.) could not have quoted in its entirety Justice Sutherland's dissent in the *Parrish* case. The dissent not only expounded constitutional constancy, but made very clear that the majority's decision completely emasculated the principle of freedom of contract, which still had some viability in 1937. Perhaps Professor Siegan's book will be effective in belatedly directing some deserved attention to the judicial talents of both Justices Sutherland and MacReynolds.

While freedom of contract has long since been abandoned as a serious argument against even the most outrageous government regulations, Justice Sutherland's poignant reference to the plaintiff in the *Adkins* case, who lost her job because of a minimum wage law, could be repeated millions of times today. Those of us who still think freedom of contract (not involving the initiation of force or fraud on others) is a basic human right can only despair that it was not spelled out in the Constitution along with the specified basic freedoms.

William L. Krayer
Pittsburgh, PA

Courtly Compulsion

In "Bearing Witness: Should You Be Forced?" (Feb.), Davis Keeler calls for an important revision of the Sixth Amendment. Referring to the *Farber* case, where a reporter went to jail for refusing to obey a court order to turn over copies of his notes to the defendant in a criminal case,

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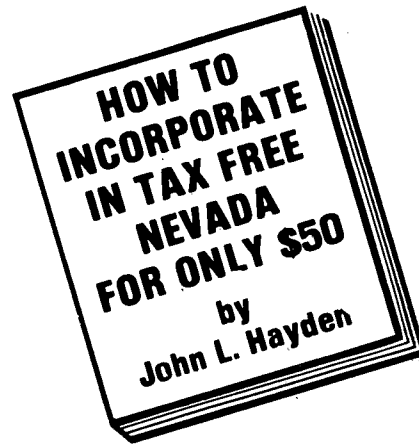

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Keeler unhesitatingly finds for the reporter: "Positive obligations arise only from individual action; the unfortunate straits of another cannot create them."

I beg to differ with Mr. Keeler on libertarian grounds. My argument is simple. When a man is held on a criminal charge, he is compelled to go on trial whether he wants to or not. His fate is in the hands of judge and jury who will determine whether he is to lose all or a portion of his rights. Since, by libertarian theory, every citizen owns an undivided interest in government, the court is the agent of all citizens who are within its jurisdiction. No such citizen, therefore, is a neutral party. Now, since the court is the citizen's agent, the man on trial has the right to demand that any citizen who is likely to have information regarding his innocence step forward if the courts have the right to put him on trial. The reluctant accused, therefore, has the right to take that information by legal force from a recalcitrant reporter.

Nor would this equality of right disappear if people simply matriculated into various anarchic communities. Suppose a group of people got together and hired a private police force. To be sure, they could write a contract to exclude subpoena rights altogether. But what happens when an outsider enters its jurisdiction and is accused of committing a serious crime—an outsider who does not have an affiliate police force to represent him? Presumably the outsider is a human being and is so entitled to a fair trial. Again, the issue comes forth: if the private police force has the right to hold the outsider, doesn't the outsider, by the principle of reciprocity, also have the right to hold reluctant insiders?

Whence come the difficulties? They come from the fact that retaliation, a negative concept, has positive implications: it is sometimes necessary to forcibly detain suspects. Another difficulty comes from the fact that the issue transcends representative government, i.e., that it could also take place in a state of nature. Since the accused must be presumed innocent until proven otherwise, his rights are the reciprocal of theirs; under similar circumstances, he would have the right to hold his captors captive, which is why the whole process should be condensed and organized into laws. And if there be any among his captors who know something which might free him, they have no right to refrain from revealing it—"unfortunate straits of another" indeed! Reciprocity is the genus, of which retaliation is the species; *do ut des,* the law of nature.

Peter F. Erickson
Portland, OR

Mr. Keeler replies: To begin with, we should note that Erickson implicitly accepts my proposition that there is no general obligation to testify, but rather he claims there is a special obligation arising from the citizen's relationship to the State. I take it that foreigners or anarchists (and perhaps outlaws) would not be obligated to give testimony, as the State is not their agent.

My response to Erickson is as straightforward as his criticism: I deny that the State is my agent. If I made the State my agent, then Erickson's argument would have force, at least in some cases. In some cases, some persons may have made the State their agent for some purposes. But this is a special, contractual relationship whose extent and obligations can only be determined by examining the particular events. There is no overarching libertarian theory of the State which requires it as a general obligation of persons.

Erickson raises some other matters when he discusses arrest and detention. As a libertarian I do not see the justification for arresting and detaining a presumably innocent person. This should come *after* conviction, not before. If the accused does not care to be present for his trial, this does not trouble me greatly.

In short, Erickson sees an implied contract of agency which I say is a fiction. You can imply all sorts of contracts to generate all sorts of rights and obligations. I simply maintain that such claims are, as a general matter, counterfactual. There is some truth to the old saw that implied contracts aren't worth the paper they aren't written on.

Housing Hell

I read your article on building codes (Oct.) with great interest. We are presently embroiled in the very thing you described. We have been fighting for four years to get a building permit for one house on 17 acres of land. Our local planning and zoning dictators have told us we'll never get a permit if they can prevent it. They say our land was illegally split some years ago (before we bought it) and that we should have never bought it in the first place. There are neighbors all around our land (with houses) and even a subdivision adjoining our land to the south. They find some justification for it all but none for us.

My husband served in the Air Force for 24 years—flying over Cambodia and Vietnam before the bombing ended. He was fighting for the rights for freedom—which he soon discovered he didn't have.

Another couple here in the area has 10 acres of land which they bought to build a home on. There was a mobile home on the land when they bought it and they are living in the mobile home. They started building without a permit, and the county has sued them and is trying to make them tear their house down. They will go bankrupt if they can't finish the house and move into it. They've already lost one appeal in county court. They will be thrown into jail if they move into the house.

Our legislators are presently in session, and some of us are trying to get a bill passed to repeal land use planning. Our dear governor, however, feels we need the federal money that will be taken away if

(Continued on p. 63.)

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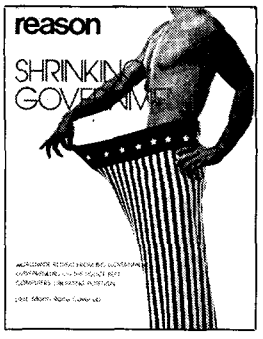

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ACCESS TO ENERGY *is a voice of reason amidst the strident shouts of the antinuclear reactionaries--- Dr Petr Beckmann is author, editor, and professor of engineering at the University of Colorado. He is also a staunch advocate of free-market, limited-government ideals. I cannot recommend too highly his engrossing monthly newsletter. Petr Beckmann, who holds two earned doctorates, is an eloquent voice of scientific reason in the midst of all the antinuclear hysteria.* HON. DR. RON PAUL (TEX.)
in US House of Representatives, June 6 and 13, 1979

Petr Beckmann is not only a good, conscientious engineer and a lucid writer; he is also a formidable fighter. He knows how to use facts, and he is an expert with that most devastating of literary weapons, humor. DR EDWARD TELLER
Preface to *Access to Energy: A Selection of Brief Essays*, publ. by the Intrntl. Inst. of Econom. Resrch.

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ACCESS TO ENERGY *blends science and technology with political reality in ways that open up and explain issues and policies concerning energy and environment especially. Beckmann cuts through ecology cant and propaganda with style as well as substance.* S.K. Oberbeck in CONSERVATIVE DIGEST

Although Petr Beckmann's primary purpose is not the furtherance of a free-market principle – his foe is the Luddite and technology-hater who is strangling our energy sources – he is actually doing more for liberty than all the amateur theoreticians in the libertarian movement put together. His publication, ACCESS TO ENERGY, *is one of the most powerful libertarian documents in the country.* Edith Efron in REASON

Beckmann puts out (independent of the University) an excellent monthly newsletter called ACCESS TO ENERGY, *which he describes as being "pro-science, pro-technology, pro-free enterprise." I recommend this excellent newsletter to anyone interested in the (crucial) connection between energy problems and market forces.* Tom Bethell in AMERICAN SPECTATOR

A professor of electrical engineering, Dr Beckmann knows just about everything there is to know about nuclear physics, everything that happens to it in the ocean of ideological and political distortions, and everything being done about it in Congress to boot. Like every conservative, he is staunchly progressive on this matter and valiantly fights the reactionary conservationists. Leopold Tyrmand in CHRONICLES OF CULTURE.

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LIBERTARIAN REVIEW [1974]

Beckmann is concerned primarily with tilting at malicious windbags who befoul the environment with exhalations of technical garbage. God bless and sustain him in his campaign for intellectually decent thought processes.
Medford Evans in AMERICAN OPINION

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trends

Not-So-Enterprising Zones

Great Britain's once-promising experiment with enterprise zones is a flop. No, the idea itself—creating areas free of taxes and regulations to allow unfettered private enterprise to do its stuff in depressed areas—has not failed. It's just that British politicians and bureaucrats have been too cowardly to put it into action.

To be sure, six areas have in fact been so designated. But by the time the plan wended its way through the bureaucracy, all that remained of the deregulation was a minor reduction in some local zoning requirements and some tax reductions, for up to 10 years. No exemption from minimum wage laws, from labor legislation, from health and safety regs, etc. Concludes Madsen Pirie of the Adam Smith Institute, "After much labor, the mountain brought forth its mouse" (*National Review,* Jan. 23, 1981).

Unfortunately, the outlook for enterprise zones in this country may not be much better. The bill on which most attention is focused (Kemp-Garcia) would cut only taxes, leaving regulations untouched (see Trends, Oct. 1980). As Pirie points out, however, simply offering limited tax concessions is nothing new; it's been going on in England, Ireland, and the United States for decades, with mixed results. It is certainly no test of the power of *laissez-faire* to revitalize areas that have been turned into economic wastelands by overgrown government.

Economic Freedom For Poland

Factories should be judged on the basis of profitability; those unable to make a profit should be reorganized or "even simply closed down." The price structure should be "rationalized" by ending government subsidies and pricing resources at levels determined by world markets. Workers' councils, not central bureaucrats, should make the basic economic decisions for their enterprises about production, prices, and wages.

Those are the core recommendations of the Polish government's 85-member economic reform commission, released in January. Set up last summer to recommend basic changes in the economy, the commission was expanded last fall to include numerous nonparty economists. And it is their views—calling for the end of a centrally planned economy—that have shaped the commission's report.

Asked about the radical nature of its contents, one of the report's authors told the *New York Times,* "Nothing we could recommend would be more heretical than the idea of allowing an independent trade union." Skeptics point out that the workers' council idea was tried once before, after the labor unrest of 1956, but was soon emasculated as the Communist Party regained control. The skeptics see the proposals as a way for the government to pacify the populace while still retaining at least political control.

Be that as it may, assuming no Soviet invasion, the recommendations are scheduled for parliamentary debate, and probable approval, this spring.

Dump Antitrust

"The time has come to recognize that the antitrust approach has been a failure. The costs it imposes far exceed any benefits it brings." Ludwig von Mises? Milton Friedman? No, those forthright words are from liberal-left economist Lester Thurow in his recent book *The Zero-Sum Society.* Like a growing number of economists of all stripes, Thurow has come to realize that the fear of "monopoly" has been oversold, and the model of "perfect competition" is an abstraction bearing little relationship to the real world.

One of the first public turnabouts on antitrust came from Frederic M. Scherer of Northwestern. As chief economist for the Federal Trade Commission in 1971, Scherer had made a widely quoted estimate that the gross national product would be up to six percent greater were it not for the effects of monopoly. Last year, however, Scherer publicly recanted. "I wouldn't place any credence on deadweight-loss numbers," he says, "including my own." One of the problems is that economists have failed to factor in the benefits to consumers from economies of scale in certain industries where size is needed for efficiency.

In his book Thurow lists five arguments against antitrust. First, he says, competition today exists on an *international* basis, and it simply makes no sense to define, say, the US auto market as an oligopoly because there are only three major US producers. Toyota, Nissan, Volkswagen, etc., provide the true competitive edge. Rather than use antitrust to ensure competition, "the appropriate policy should be to reduce barriers to free trade."

A second problem is that antitrust enforcers have to define a "relevant market" in order to estimate monopolization. But in today's affluent society, most goods and services are luxuries, not necessities, and therefore most goods are substitutes for others as uses for discretionary income. The person who buys a swimming pool may forgo a trip to Europe or a sports car. But this sort of substitutability makes "relevant market" monopolization irrelevant. Even in basic goods like breakfast cereals, says Thurow, so what if four firms have most of the market with heavily promoted brand-name products? There are plenty of substitutes—store brands, bacon and eggs, or not eating breakfast. People may make silly decisions, "but it is hardly the appropriate role of government... to stop people from making silly decisions that do not affect anyone but themselves."

Third, Thurow notes that the rise of conglomerates (brought about, in part, by antitrust laws) means that there are many firms waiting in the wings with sufficient resources to take on a firm that shows signs of earning monopoly profits. (Look at Exxon starting up a line of office products to compete with IBM.) Fourth, when government succeeds in breaking up a large firm, "it is not obvious that anything of value is accomplished." Four mini-IBMs would still be a concentrated industry; the most likely winner would be foreign computer makers. Finally, antitrust's focus on *price* competition is unrealistic. Many people value service, quality, and various subjective satisfactions more than they do low prices. Why shouldn't we accept those preferences as valid?

Other critics cite additional problems. Harvard's Hendrik Houthakker notes that, because of fear of antitrust, industry leaders tend to avoid price-cutting, thereby protecting highly inefficient firms in their industry. New School for Social Research's David Schwartzman points out that, by fostering conglomerate mergers, antitrust has directed companies into fields in which they have little expertise.

For all these reasons, more and more economists think antitrust should be scrapped. Doing away with the Justice Department's Antitrust Division would save about $47 million in federal spending; axing the FTC's antitrust arm would save another $33 million. But the big sav-

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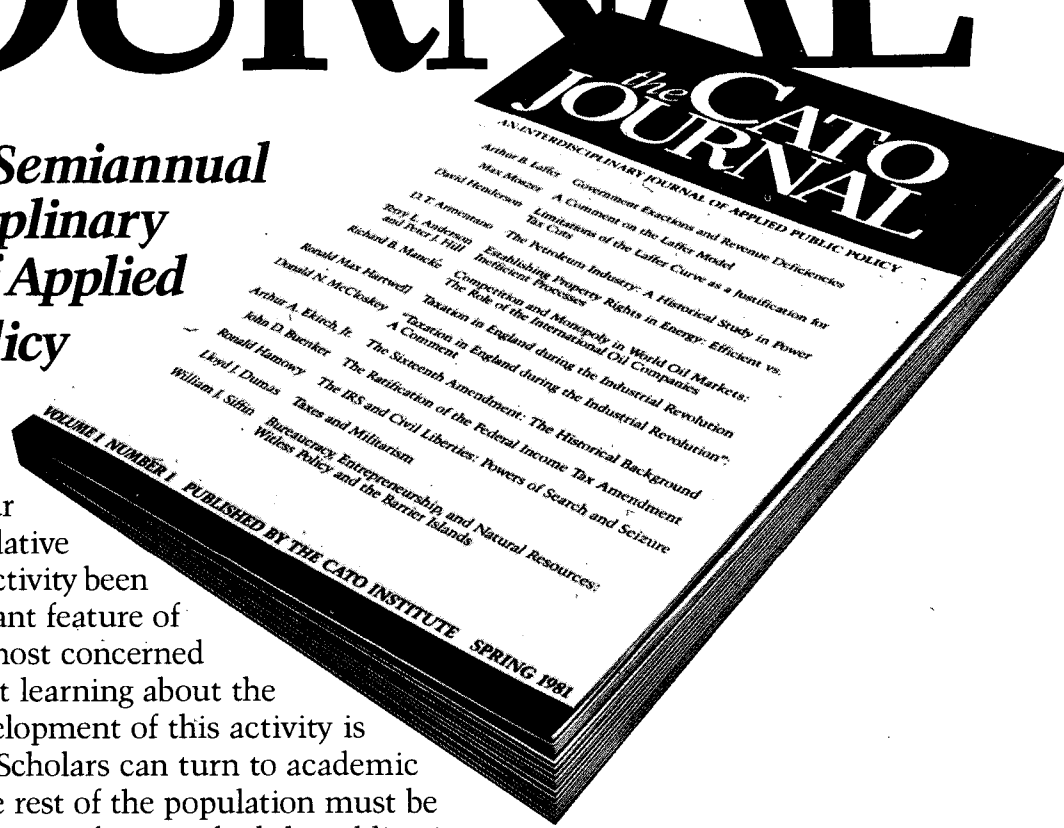
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ings would occur in the private sector's legal fees. IBM is estimated to have spent $1 billion fighting the Justice Department suit; AT&T, between $350 and $500 million. Those are costs consumers could readily do without.

British Spruce Up with Privatization

The local council of Southend-on-Sea, Essex, England, made local government history in December, our London correspondent Eben Wilson informs us. Southend's council decided to contract out what the English term "cleansing" services, that is, street cleaning, refuse collection, and public lavatory maintenance. The move will save local taxpayers about £400,000 a year.

The decision was made over the protests of the affected union, the Transport and General Workers Union. TGWU now claims that, if it had known such alternatives were being seriously considered, it could very well have increased its proposed savings by about £200,000.

David Evans, chairman of Brengreen (Holdings) Ltd.—whose subsidiary, Exclusive Cleaning Group, won the five-year contract—assures union members that Exclusive Cleaning will hire at least 200 of the affected 250 workers to continue with the cleaning. Furthermore, Evans notes, "If necessary we are prepared to commit the entire resources of our organization in ensuring its success." Evans is well aware that some 40 other councils are watching the Southend experiment closely. If his company does a good job, there may be more privatization ahead.

Radio Regs Cut

Should the government or the marketplace determine how many minutes per hour a radio station devotes to commercials, or how much of its time goes to news and public affairs, or whether it must keep a detailed log of everything broadcast? Well, on January 14 the Federal Communications Commission decided it was about time to let the marketplace do that, as it has always done for newspapers. And considering the fact that most cities have vastly more radio stations than newspapers (Los Angeles, for example, has 70 stations), it seems reasonable to suppose that competition will be an effective regulator. FCC chairman Charles Ferris pointed out that, just in the 18 months the proposal had been under study, 287 new radio stations had gone on the air, making a total of 8,900 across the nation.

Also influencing the commission's decision was a two-year study of 2,000 stations, conducted by the National Association of Broadcasters. Whereas the FCC regulation had imposed a maximum of 18 minutes of commercials per hour, AM stations averaged only 12 minutes and FM stations 7 minutes. Competition, in other words, has already been hard at work.

Outraged by the decision were the National Citizens Committee for Broadcasting (a Ralph Nader group) and the United Church of Christ Office of Communication, which filed suit appealing the ruling. Why? That's simple, according to George Green, vice-president and general manager of KABC. "What this ruling does is remove [such groups] from their comfort zone. They knew their programs would get on the air because they knew the stations were required to broadcast them." Now, however, if "public affairs" spots don't meet the test of the marketplace, they won't be broadcast.

Unchanged by the January ruling are the FCC's "most dramatic intrusions" on broadcasters' First Amendment rights, notes former commissioner Dean Burch: the Fairness Doctrine and the equal-time provision for political candidates. But, Burch told a broadcasters' convention in January, further deregulation moves in these areas are likely during the Reagan administration. Added former FCC chairman Richard Wiley, "There's a healthy new breeze blowing at the commission."

What Price Securities Regulation?

Few people question the value of government regulation of securities firms and stock exchanges. Yet, just as with other regulatory agencies, researchers have found that the Securities and Exchange Commission imposes heavy costs while promising far more than it actually delivers. George Benston of the University of Rochester, for example, has challenged the idea that SEC disclosure requirements prevent fraud; comparing data for the years since the SEC was created (1934) and the pre-SEC period, he found no evidence that fraud has decreased. His research also indicates that SEC regulations fail to prevent "insiders" from having an advantage over others due to better access to information. But talk to any small entrepreneur trying to bring his company public, and you'll get an earful about the *cost* of complying with SEC regulations.

Against this sort of empirical background, the Reagan transition team report on the SEC is quite understandable. That report calls for cutting the agency's budget and staff in half by 1983, converting its market regulation division into a "think tank for regulatory reforms which might deregulate the securities industry," and shifting the thrust of SEC policy toward removing barriers to raising money. As part of the reorientation, the SEC should stop trying to force into being a national stock market system and allow the securities markets' own evolution to take place.

By the time you read this, a new SEC chairman will most likely have been appointed. If it's transition team member (and report author) Daniel Piliero, the odds of these recommendations being carried out will be relatively high.

Orbital Slots: Creating New Property

In contrast with the situation in the deep seabed, de facto property rights are being established in orbit. While diplomats continue their efforts to define seabed minerals as the "common heritage" of everyone, subject to UN control, private firms go about their business "homesteading" slots in the geosynchronous orbit for communications satellites.

The basic mechanism is first-come, first-served—just as in staking out mining claims. Companies or governments with the means and desire to put up a satellite apply to the International Telecommunications Union's Frequency Registration Board to register their claim. At present the geosynchronous orbit covering North and South America is divided into four-degree (of arc) slots, each capable of accommodating one satellite without signal interference with adjacent ones. Pending before the FCC as of last winter were applications from 12 firms to add 26 more satellites to the nine already occupying slots in orbit. When the FCC approved 20 of those applications in January, the number of unclaimed slots was reduced to three.

Not to worry, though. The capacity crunch has been anticipated. While a few Third World governments have been calling for collectivization of the slots along seabed lines (and the Colombian government managed to get the 75° W. Long. slot registered, even though it has no satellite), technology has come to the rescue. The next generation of communications satellites, including the 20 recently approved, will be able to operate from slots only three degrees wide, rather than four. Most of the existing satellites will need replacement between 1982 and 1983, allowing a general repositioning to the new spacing.

And when the three-degree slots are all filled? No problem. Aerospace sources assured REASON that technology is moving so rapidly that two- and one-degree spacing isn't that far off.

Workplace and Cancer: A False Alarm?

What percentage of all cancers in this country are the result of workplace exposures to hazardous substances? If you answered "at least 20 percent" you'd be in agreement with former Health, Education and Welfare secretary Joseph Califano, who announced that figure before an AFL-CIO conference in September 1978. You'd also be wrong.

Califano's figure came from a draft government report, "Estimates of the Fraction of Cancer in the United States Related to Occupational Factors." Although all 10 of those listed as "contributors" to it are eminent scientists, the report has never been subjected to the usual scientific review process associated with publication; it has not appeared in any scientific journal.

That led scientists at the American Council on Science and Health to wonder. So they telephoned all 10 contributors. Of the 8 they could reach, only one defended Califano's figure, while the other 7 said they believe it could be incorrect. (Many cancer experts estimate that five percent or less of all cancers are related to occupational factors such as asbestos and vinyl chloride.)

ACSH executive director Elizabeth Whelan says the report "has been widely criticized in the scientific community for its flawed methods and erroneous conclusions." She hopes people will develop "a healthy skepticism for government pronouncements of impending disaster" when the hard data are not there to back them up.

Private Efforts to the Rescue

Casco Bay, Maine, fishermen have had to rely heavily on their own efforts, with minor help from the Coast Guard, for search and rescue operations at sea. Finally, frustrated over the needless deaths due to lack of organization and equipment, lobstermen Martin Wyman and Bernard Johnson decided to set up a volunteer rescue team last year; classes and drills on proper search patterns and on first aid were both heavily attended. While most Maine fishermen have viewed the coalition as an interim effort until the government can provide the needed service, one resident offers a better alternative: private rescue.

Michael Badham, a retired Royal Navy commander, writes in the *National Fisherman* that England has had a purely voluntary, privately funded Royal National Lifeboat Institution patrolling its coast and that of Ireland for the last 157 years. The RNLI maintains over 134 lifeboats, 120 smaller inshore rescue craft, and 200 lifeboat stations over 7,000 miles of coastline. Some $26 million is raised each year through 2,000 voluntary branches and through women's clubs, which organize raffles, dances, and sales to raise the necessary funds. Lifeboats are often named after substantial donors.

RNLI was founded in 1824 by Sir William Hillary, who instituted the continuing view that government aid would be unnecessary and undesirable in this matter. In recent years, as a matter of fact, the RNLI has said that it receives more funds from private support than it would in taxes as a nationalized service. According to Badham, similar volunteer rescue systems operate in the Netherlands, New Zealand, South Africa, Spain, Sweden, and West Germany.

OSHA Lacks Safety Savvy

It seems that human factors research is lacking not only in the Nuclear Regulatory Commission (see "Who Caused Three Mile Island?" REASON, Aug. 1980) but in the Occupational Safety and Health Administration, as well. According to the US Chamber of Commerce's analysis of the latest (1979) Bureau of Labor Statistics data, worker health and safety have *not* improved since OSHA was unleashed upon the business world. And the reason it has not done good, some say, is its misdirected concentration on mechanical safety and equipment rather

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than on what causes most accidents: human error. The number of work-related fatalities edged upward from 0.82 per 10,000 workers in 1978 to 0.86 in 1979 despite OSHA's direct expenditure of $1.5 billion in tax money and the additional $25 billion corporations were forced to spend to kowtow to OSHA regulations.

The Chamber further criticized OSHA's adversarial, rather than cooperative, approach to business. Gary Lovestead, occupational safety and health specialist at Deere & Co., of Moline, Illinois, described in an interview with the *New York Times* how switching over to OSHA's program drove Deere's injury rate up 42 percent between 1972 and 1974. It was only by returning to internal safety standards that Deere managed to gradually decrease its injury rate for the last six years. Lovestead says that most of Deere's injuries are from inattention and human error, not from equipment that is unsafe.

Perhaps President Reagan will see fit to put out of its misery the agency everybody loves to hate. But one doubts it, alas.

Bus Deregulation: Overcoming State Laws

Should the Interstate Commerce Commission preempt state laws that hamper or prohibit its efforts at deregulation of bus transportation? The question arises because the deregulation-minded ICC wants to ease up on restrictions that keep new firms from entering into bus service and keeps existing firms from changing their routes to accommodate changes in demand. The ICC, however, does not have the authority to override state laws that impose such restrictions. So the agency submitted legislation to the former chairman of the Senate Commerce Committee, Sen. Howard Cannon (D-Nev.), of airline deregulation fame, that would allow those changes to be imposed regardless of state laws. Basically, bus lines would be allowed to enter routes now closed to them and to drop unprofitable routes after notifying state regulatory bodies and affected communities, and they would be allowed to raise and lower fares within a specified price range.

Perhaps emboldened by the success of Florida's trucking and bus deregulation (Trends, Mar.) and the subsequent glaring lack of chaos, Arizona voters approved in November a referendum canceling all economic regulation of trucks, buses, and taxis. According to Arizona Department of Transportation economist John Semmens, the last few remaining requirements are that vehicles be registered, liability insurance be posted, and the vehicles be periodically inspected. The law takes effect in July 1982.

Businesses Fill the Education Gap

When a business needs skilled workers and government schools are turning out graduates who can hardly read, spell, or divide, what is the next likely step? Why, the business promptly steps in and attempts to educate potential employees to the level of competency it requires. And that is exactly what some American corporations are being forced to do in the United States and in South Africa.

Part of the reason for the gap is that the transition to word processors, robots, and other technological machines is eliminating the need for lower-skilled workers to perform drudgery tasks, but it is also creating the need for better-equipped workers who can do more than imitate. The dictating machine, for instance, requires that the person who types the words onto paper know proper spelling and punctuation. At a New York insurance company, some 70 percent of company correspondence must be retyped because of mistakes in such areas.

While some companies turn to professional remedial firms to upgrade worker skills, others offer in-house instruction. Clerical workers at Continental Illinois Bank & Trust Co., reports the *Wall Street Journal,* may spend two hours a day twice a week learning the basic rules of grammar in 25 weeks. A participant in another 12-week typing and English course more than doubled her speed to 50 words per minute (!) in that time despite years of typing classes at school. The declining quality of graduates (who seem otherwise competent) is blamed on the current emphasis on minimum competence standards and the concept of egalitarian education, which brings class levels down to the lowest possible common denominator.

The problem is much more straightforward in South Africa: blacks simply don't have access to the same quality of education as whites do. South Africa's booming economy is making the need for educated black workers painfully necessary, and once again, American business is attempting to fill the gap left by government. Several US companies are behind a $6 million project to build the first black private commercial high school in Soweto, due to open in June. The school, called Pace, will enroll 600 students in a five-year program and will be administered by the former headmaster of one of South Africa's most prestigious private schools, assisted by the country's leading black poet, Oswald Mtshali.

Aside from Pace, the Shell Oil Company, for instance, provides local and foreign scholarships to black students and provides grants for math and science teachers, as well as money to technical schools. Not to be left behind by the competition, local companies strapped for skilled workers are also being forced to mend their apartheid ways. Rand Mines Ltd. is planning to spend $3 million over the next five years to improve the primary schools it maintains for children of black employees.

Countering Condo Phobia

Condominiums have long been an avenue for first-time home ownership for people who can not yet afford a conventional single-family home. With today's soaring house prices and mortgage rates, more and more people find they are priced out of the conventional housing market. Consequently, builders are racing to construct condos, and apartment house owners over the past decade converted 366,000 apartment units to condominiums.

You might expect advocates of the interests of low-to-moderate income people to applaud these trends. Guess again. Self-styled progressives (see cover story, p. 22) have instead been urging city governments to ban or severely restrict condo conversions, on the grounds that conversions decrease the supply of rental units and harm displaced tenants.

How valid are these concerns? Last winter the Department of Housing and Urban Development released a report on the subject (*The Conversion of Rental Housing to Condominiums: A National Study of Scope, Causes, and Impacts*). The results not only undercut the critics' case; they show that condo conversions actually benefit many of the groups the progressives claim to be concerned about.

What happens when a rental unit is converted to a condo unit? Well, the supply of rentals drops by one unit (unless the new owner rents out the unit)—but in most cases, so does the demand for rentals. If the purchaser is the unit's former tenant, that's easy to see. But the most likely alternative is that some other former renter moves up to home ownership by buying the unit—in the process, vacating a rental unit. Thus, while that conversion "displaces" one tenant, it also frees up one rental unit. HUD found that these types of transactions predominate, to the point that "nationally, for every 100 rental units converted, there is a *net* increase of 5 units for sale to owners and a *net* decrease of 5 available rental units. In other words...the effect on the rental market is considerably less than the total of all units converted." Yes—95 percent less, to be precise!

What kind of people buy the converted units? Some 61 percent have household incomes below $30,000. About half are 35

or younger, and 10 percent of them are black (while only 7 percent of all owner-occupants in the nation are black). And 57 percent are single (36 percent women, 21 percent men) compared with only 14 percent of owner-occupants nationwide.

What about those who move out, rather than buying a converted unit (or renting it from the new owner)? Slightly more than half (58 percent) move out, and of these, about half had "some difficulty" finding new housing. But only 18 percent of those who moved had to accept either similar-quality housing at higher cost or lower-quality at the same cost. Moreover, 90 percent of the former residents indicate that they are satisfied with their new housing—the *same* degree of satisfaction reported by those replacing them in the converted building.

In short, controls on condo conversion are anti-black, anti-single-women, and anti-expanded-home-ownership opportunities for people of modest means. Enacting such controls in the name of helping people is a cruel hoax.

Teething Pains and Prices

Two developments in the world of dentistry promise good things to the consumer: more convenience and lower costs. One is the opening up of dental centers in retail stores, and the other is a hygienist's battle to be allowed to practice independently.

The first innovation is the direct outgrowth of the US Supreme Court's decisions striking down bans against advertising by professionals. They seem to have cleared the atmosphere and allowed professionals to see themselves also as business traders. Such store chains as Sears, Montgomery Ward, and other regional outlets now have dentistry departments, with such benefits as handy price lists and no-appointment service. Dental World Center, riding on the crest of the wave, may franchise its entire concept—including a children's playroom, a movie room, and TV sets suspended from the ceiling in treatment areas.

One company that already offers franchises, Dentalworks, gives advice on site selection, purchase of equipment, and operating procedures. Dentists have the choice, often, of working on a salary or commission basis, depending, one would expect, on their temperament. And the lower costs, retailers say, come from the economies of scale inherent in bulk buying and self-manufacture and in treating large numbers of patients.

Another person who wants to bring consumers more choice in dental care is dental hygienist Susan Edwards. Although state laws currently require all hygienists to work only under the supervision of dentists, Edwards has opened her own teeth-cleaning business in Kingston, Pennsylvania. Edwards is frustrated over the fact that hygienists only make about $12,000 to $15,000 a year, while the middleman (the dentist) "makes out like a bandit." She is sure she can generate as much as $120,000 a year, partly because her lower fees would attract more patients. A fringe benefit for consumers is that the added competition would lower dental prices across the board, some believe.

Edwards has the support of a group called Hygienists' Anonymous, which is working to advance hygienists' rights to clean teeth, to give fluoride treatments, and to offer diet advice without a dentist being present. The establishment American Dental Hygienist Association and the American Dental Association are critical of Edwards, noting that, for one, she is breaking the law. One dentist, however, has stood up to the wrath of his colleagues to back her case. "It's pure and simple restraint of trade," Dr. Paul Cummings of North Carolina contends.

Tug-of-War over Taxpayers' Purse

Fact A: tax indexing does protect incomes by keeping governments from earning windfall inflation tax profits. Fact B: tax indexing forces politicians to scrutinize budgets and limits their ability to raise or

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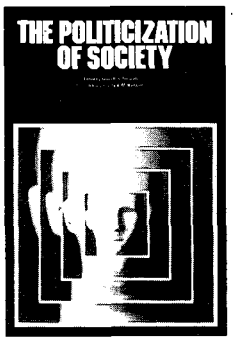

The Politicization of Society

Edited by Kenneth S. Templeton, Jr.

"The state has increasingly replaced the church in determining how we should behave," writes Oxford professor R. M. Hartwell in his introduction. "Politics is now religion." Fourteen scholars examine the central problem of modern society—the growth of the state—and its significance for the individual. They are Robert L. Carneiro, Felix Morley, Murray N. Rothbard, William Marina, Robert A. Nisbet, Jacques Ellul, Giovanni Sartori, Michael Oakeshott, Donald M. Dozer, Herbert Butterfield, John A. Lukacs, Jonathan R. T. Hughes, Butler D. Shaffer, and F. A. Hayek. Hardcover $10.00, Paperback $4.50.

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lower taxes at whim. Conclusion: despite its successes, the battle to implement indexing will be fought tooth and nail by the bureaucracy—and that goes, as well, for any tax cuts at all.

Take, for instance, California. Gov. Jerry Brown has been whimpering over the "workload" (no new programs) budget forced upon him by an alleged fiscal crisis supposedly rooted in 1978's Proposition 13 (which lowered property taxes dramatically). The anti-Proposition 13 forces (an amalgam of trendy media types, well-paid and numerous government employees, and the misguided many) have pounced upon the governor's warnings as vindication of the evils of Proposition 13. One only wishes they would look farther than the tips of their noses.

For example, on the bad side: from October 1978 to October 1980, state and local government employment in California grew by three percent, whereas total US civilian employment growth was 1.9 percent. Furthermore, Brown's new fiscal year 1982 budget is one and three-quarters times as large as the state budget just prior to the vote on Proposition 13, the *Wall Street Journal* points out. Assessed property values were up 17.8 percent in the current fiscal year—despite Proposition 13—which will give California's cities and counties $700 million more to play with.

Now, on the good side: California's unemployment rate used to be one to two points above the national average; since 1978, it has steadily decreased and is now almost one percent *below* the national rate. Not too bad for an "evil plot" for the "rich," huh?

Then there's Wisconsin, where Gov. Lee Dreyfus has encouraged and passed efforts to expand tax brackets, decrease the top rate, and implement tax indexing. He isn't worried, either, about a $240 million deficit due to a decline in corporate tax revenues, calling it an opportunity to practice "fiscal brinksmanship." The shortfall will help him to persuade the state legislature to control spending, he believes. So far, Wisconsin's unemployment rate has dropped to 7.1 percent, below the national average, and private capital spending in the state in 1979 was the highest in 10 years.

Thus far, nine states have indexing in some form, according to Robert Lucke of the Advisory Commission on Intergovernmental Relations. These are: Arizona, California, Colorado, Iowa, Minnesota, Montana, Oregon, South Carolina, and Wisconsin. Delaware has limited fiscal year appropriations to 98 percent of estimated general revenue funds, while Idaho has limited general fund expenditures to 5.33 percent of total state personal income.

Solving Brazil's Population Problem

Between 1960 and 1970, Brazil's population growth of 2.8 percent/year was nearly three times that of the United States and of parts of Europe. It seemed to those who believed in the population bomb that the large Latin American country was doomed to poverty and overcrowding.

What they forgot to take into account, it seems, is the effect of social change on statistics. Brazil's population growth rate has, in the last decade, *dropped* by 18 percent. The reason for this, Brazil Census Bureau President Jesse Montello told the Associated Press, is that women simply had fewer babies. They had few babies because, in the move from backlands to developed areas, they learned how *not* to get pregnant. And because of increased job-entry opportunities, more Brazilian women choose not to become pregnant.

The growth rate is now down to 2.3 percent, and Montello expects it to slow down even further by the end of the century. If anything holds population control back, however, it will probably be the influential Roman Catholic Church (Brazil has the world's largest Catholic population). During his 1980 12-day visit to Brazil, Pope John Paul II exhorted his flock not to use artificial birth control.

Gold Standard Prospects

Will the US government return to a gold standard? To answer yes to that question would have seemed fanciful even a few years ago. It doesn't any more. Trial balloons and straws in the wind have been filling the sky for the past few months. Consider just a few of the portents:

- It has been widely reported that the supply-side economists generally favor such a move. Arthur Laffer's proposal to reestablish a gold standard forms the basis for a bill in Congress (see Trends, Jan.). Laffer colleague Robert Mundell has expounded on this subject twice in *Business Week* (Nov. 17 and Dec. 22, 1980). Supply-siders Norman Ture and Paul Craig Roberts have received top Treasury Department jobs, and David Stockman, another supply-sider, is now director of the Office of Management and Budget.
- Articles in leading magazines of ideas have been promoting the gold standard. Among them are a piece in *Harper's* last August by supply-sider Lewis Lehrman (who was considered for Treasury secretary) and simultaneous articles in the February issues of *Atlantic* and *Harper's* by James K. Glassman and Tom Bethell, respectively. Both use the New Orleans conference of the National Committee for Monetary Reform as a backdrop to discuss the case for a gold standard, in persuasive and sympathetic terms.
- The January issue of *Nation's Business,* the US Chamber of Commerce magazine, reported that its November reader poll showed four-to-one support for reinstating a gold standard.
- Overseas, gold has already been remonetized. According to the *Wall Street Journal* (Dec. 24, 1980), "Despite exhortations by the US Treasury, central banks have been buying and hoarding gold in the past three years. They now hold more gold than South Africa will mine in 40 years." Republic National Bank executive Frederic Bogart says that government gold buying means that gold "is creeping back into the world monetary system."

Are there historical precedents for reintroducing gold? Glad you asked. The German hyperinflation after World War I was cured by introducing the Rentenmark, a gold-backed currency. It erased inflationary expectations and restored confidence in short order. The US government went off the gold standard in 1861 during the Civil War; at that time the consumer price index (CPI) stood at 27 (1967 = 100). In just three years of greenback issuance, it had soared to 47 and remained between 36 and 46 after the war—until the Resumption Act, restoring gold backing, was passed. By 1879, when the act took effect, the CPI stabilized at 28. Over the following *three decades* the index remained between 25 and 29. *That* is the kind of price stability a gold standard can produce.

Milestones

- *Salt Assaulted.* A Food and Drug Administration review of 415 natural and artificial additives targeted only one "potentially" harmful substance for possible regulation: salt. It *may* increase hypertension. "It would be extraordinarily difficult to ban salt or to establish appropriate levels for each individual product," acknowledges FDA Bureau of Foods Director Sanford Miller, "but we will if there is no voluntary effort."
- *Another One Bites the Dust.* The Fund for the Republic, the legal parent organization of the left-wing Center for the Study of Democratic Institutions (Feb. 1980), has dissolved. A scaled-down Center, however, continues on under the protective wings of the University of California at Santa Barbara as the Robert M. Hutchins Center for the Study of Democratic Institutions.
- *Taiwan-China Trade.* Despite the official Taiwanese ban on exports to mainland China, the flow of Taiwan

goods to China via Hong Kong for 1980 outpaced 1979's figure by over 1,200 percent ($12.5 million in the first 10 months of 1979; $164.9 million in the same 1980 period). China, of course, considers Taiwan one of its provinces and therefore imposes no tariffs on Taiwan products.

• *Rent Control Controlled.* Encouraging news all around on this front: first the voters of Mountain View, California, defeated by a two-to-one margin a measure that would impose rent control in that city. Second, the *New York Times* recently ran an editorial recommending that rent control be phased out (gradually) and urging that people give up the illusion that "good housing can be provided without an honest reckoning of the costs of building and maintaining it." Next they'll be telling us that zoning is exclusionary!

• *Freer Trade.* Business leaders and academics of the United States-Japan Joint Economic Relations Group say that both countries should support "freer flows of trade, capital, technology, human resources and cultural and social influences." The group's report notes that US-Japan trade relations have been hampered by such misconceptions as the belief that Japan does not trade fairly or that the United States is still the dominant partner in an unequal relationship.

• *An Early Knock-out.* Even before being formally presented to the California legislature for consideration, the Brown administration's "youth services" revamp plan has been withdrawn because of political pressures. The plan, which would have reformed the school system be decentralizing to neighborhood levels, setting up a state voucher system, and ending compulsory schooling at age 14 (Trends, Feb.), was attacked by both bureaucrats and certain parent groups (the PTA, for example) and will be rewritten to examine only youth social services and not education.

• *Radical Solutions Urged.* Even the chief economist of the liberal institution Fund for Peace has come up with a federal hit list. Economist James J. Treires suggested abolishing the Arms Control and Disarmament Agency, the Economic Development Administration, the Council on Wage and Price Stability, the Congressional Budget Office, the Small Business Administration, and the Office of Comprehensive Employment Development (best-known for CETA). The rationale for these choices, Treires says, is that although their goals are noteworthy, the bureaucracies just cannot seem to achieve them. Abolishing the agencies outright, Treires suggests, would shock people into seeking alternatives.

• *Free-Market Fusion.* The government says it expects to deliver a working fusion reactor by the year 2000. But a private firm, International Nuclear Energy Systems, plans to build—without government subsidy—five fusion devices costing about $1 million each by *1984*. The fusion device, called a Riggatron, is disposable and can survive the fusion reaction for about a month before it needs to be replaced. The power it generates in that month is claimed to be enough to justify its brief life span.

• *In One Ear, Out the Other.* Now that Massachusetts voters successfully voted to limit local property taxes to 2½ percent of fair market value, the state government is hoping to recuperate from the $600 million slice in its revenues by either raising the sales tax or income tax. Thus, a proposed constitutional amendment limiting the growth of state and local taxes to a growth in personal income is now gaining momentum.

• *Former Defense Secretary on Waste.* Outgoing Secretary of Defense Harold Brown told reporters at a December press briefing that although he had reduced Pentagon expenses by $1 to $2 billion, another $5 billion could be eliminated annually. The cuts aren't made, he says, because of political pressures—low priority items proposed by members of Congress to benefit their own districts. Brown suggested also that Japan build up an adequate naval force to defend its oil supply routes.

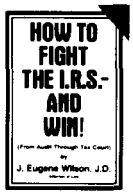
• *More on the Pill.* The federal Center for Disease Control has issued a report stating that the birth control pill may help *prevent* certain types of cancer, as well as protect healthy users from arthritis, pelvic inflammatory disease, and anemia.

—Robert Poole, Jr., and Christine Dorffi

HOW TO FIGHT THE I.R.S. — AND WIN!

(FROM AUDIT THROUGH TAX COURT)

By J. Eugene Wilson, J.D.
Atlanta attorney



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Socialism.. Where

LAST NOVEMBER'S CONservative double-whammy—the defeat of five liberal senators and the victory of Ronald Reagan—has given many opponents of the welfare state a sense of euphoria. The tide has at last been turned, they think; the social and economic devastation wrought by 20 years of liberalism is now at an end, history is on their side, and from here on out conservatives are firmly in the driver's seat.

In fact, the new reality is somewhat more complicated. Although the right has ascended to power on a national level, at the same time, in communities like Cambridge and Ann Arbor, Berkeley and Santa Monica, leftist coalitions are running sophisticated and effective campaigns for local public office, winning seats on rent boards, school boards, planning commissions, and city councils. Once in place, they make full use of generally unexercised powers of local government to redistribute wealth and reorder social priorities. Because they tie their programs to such real issues as housing, city planning, and energy use, they've been able to at-

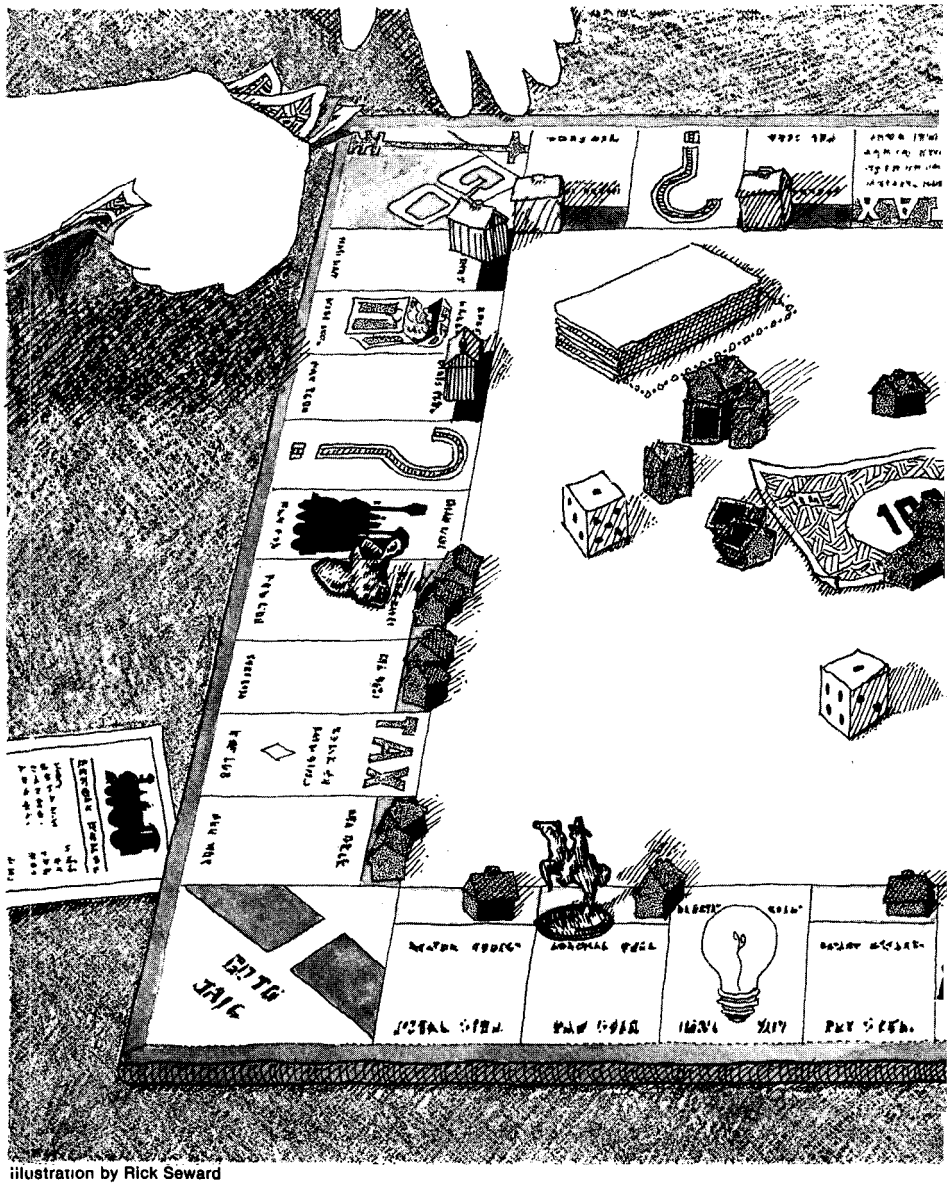
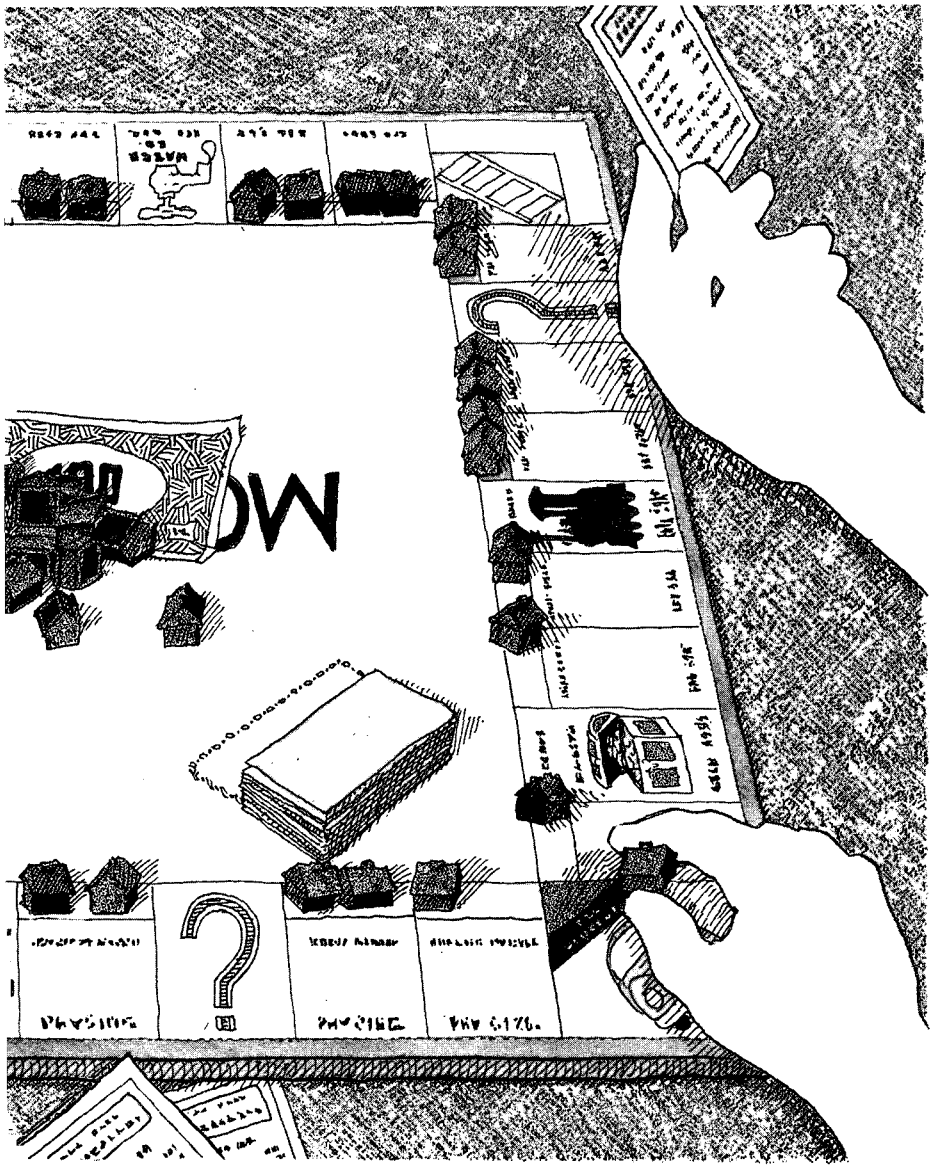


illustration by Rick Seward

BY
PAUL CIOTTI

On the Street You Live

All across the country, the new "progressives" are taking steps to capture the cities' wealth



tract considerable support for a frankly socialistic agenda.

Not that they actually call it socialism anymore—that reminds people too much of politburos, Afghanistans, Cuban mercenaries, and Soviet tanks. Besides, socialism suggests a Marxist perspective, a tendency to see history in terms of class struggle, oppressed masses, and revolutionary proletariats—none of which has ever characterized the American experience. Instead, the more subtle leftists now refer to themselves as progressives; they engage in community organizing, not class struggle; and it isn't socialism they're striving for—it's "economic democracy."

Who Are These People? *(And What Do They Want?)*

Because the progressives aspire to mainstream political power, they take great pains to distinguish themselves from radicals of the late-'60s stripe. In those days, the radicals actually expected violent, apocalyptic revolution—guerrillas in the hills and tanks in the streets. Militancy was seen as a sign of sincerity. The political dialogue had moved so far left that mere socialists were considered reactionary, leaders of the Students for a Democratic Society declared themselves "revolutionary communists," and SDS's most militant faction, having broken away to form the Weather Underground, began blowing up

buildings and also occasionally themselves.

The radical debacle ended in the early '70s. The tide of public opinion had turned against the war, but the left was no longer leading it. Instead, the same students who presumed to be the workers' vanguard into a revolutionary future had themselves been attacked by construction workers on New York City streets. Within a few years, the old radical left had virtually disappeared, its members estranged from politics entirely, opting instead for drugs, mysticism, and bean sprouts or, as one survivor put it, "spending a year putting a skylight in their kitchen."

As the progressives tell it, none of them was even speaking to radicals in 1969, and certainly they were never so out of touch with reality (except only once, and then just for a minute) as to believe that the country was on the edge of violent revolution. So although today's progressive leadership is older than the radical leadership of the late '60s, this isn't, they claim, simply a matter of its being 10 years later now and the radicals have all settled down and become respectable progressives. As SDS cofounder Richard Flacks explains it, "Those who believed in '69 or '70 that an apocalyptic revolution was imminent weren't able to make the change to mundane local politics." One notable exception, they say, is Tom Hayden, who now heads up the Campaign for Economic Democracy. Or as Hayden says, "Then is then and now is now."

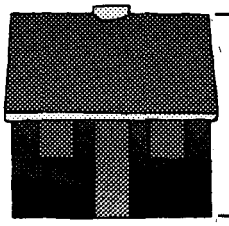
Like radicals of the '60s, however, today's progressives tend overwhelmingly to come from comfortable urban, white, middle-class backgrounds. The familiar litany of their constituency is still the same—women, poor people, minorities, gays, and the working class. But the poor people they end up benefiting tend in many instances to be white college graduates (many with advanced degrees) in their middle and late 20s who are poor, if they are poor, because they have not chosen to take the $25,000 jobs waiting for them in business or industry. Much is made of minority representation in the progressive movement, but at a national conference of progressive activists and community organizers held last summer in Pittsburgh, blacks accounted for the merest sprinkling of the 650 registrants, and most of them were on speaker's panels. Finally, progressives constantly accentuate their ties to labor, but like radicals of a decade before who professed solidarity with the workers but tended to despise the silent majority—and especially those blue-collar workers in the construction trades, variously demeaned as "hardhats" in the North and "rednecks" in the South—the progressives of the '80s have failed to forge ties with any labor except public employee unions. "I'm saddened by the total fear in which people live of CED," says Sam Hurst, a communications specialist in Hayden's Campaign for Economic Democracy.

The most important difference between an '80s progressive and a '60s radical, perhaps, is that the progressive believes that the route to power in this country lies, not in some apocalyptic national convulsion, but in grassroots, door-to-door, block-by-block community organizing on specific issues. Unlike '60s radicals, many people in the progressive leadership ranks were active not only in the antiwar movement but also in civil rights and community organizing in the Saul Alinsky tradition. An unusual number tend to have advanced degrees in economics or sociology. Many teach school, work in social service agencies, or run programs of their own with foundation or government support.

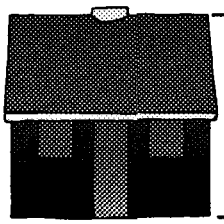
Their outlook is fundamentally socialist, but it's not the ideological Marxism of the European intellectual variety. (Recently I was talking to a labor union attorney on the Santa Monica rent board who complained that someone had called him a Fabian socialist and he *still* hadn't found out what that is.) Most progressives don't believe in public ownership of the means of production, say prominent leftists like Lee Webb, so it's really not correct to describe them as socialists. And in fact, for leftists, progressives do seem unusually wary of centralized State control—understanding, perhaps, as radicals never did, that State ownership of the means of production in the Soviet Union has never been at all incompatible with, in the words of leftist writer David Horowitz, "oppression, pollution, imperialism, and exploitation." So progressives like to stick by their distinction: what they want, they say—and this is the thrust of economic democracy—is public *control* of the means of production.

Lee Webb, director of the Conference on Alternative State and Local Policies, is probably one of the more archetypal '80s progressives. He dresses like a young Ivy League professor, exhibits a calm patrician air, and only occasionally falls into a patronizing tone (probably as a result of having answered similar uninspired questions a few hundred times before). By Webb's account, he had a relatively privileged upbringing, spending his adolescence in private schools, attending Harvard and Boston universities, earning a doctorate in economics, and taking off weekends to fight for civil rights, once being arrested for attempting to integrate a Baltimore cafeteria.

In 1963 he became national secretary of SDS. Under his leadership, membership mushroomed from 10 to 125 chapters within a single year. He later registered as a conscientious objector, worked for a year and a half for the National Council of Churches in Chicago, then became Washington editor of *Ramparts*. By 1966, SDS had already begun its long slide into revolutionary Marxism, and, in an internal political dispute, Webb was purged for bad politics. In disgust, he abandoned ideological politics for the



In communities like Cambridge and Ann Arbor, Berkeley and Santa Monica, leftist coalitions are running sophisticated and effective campaigns for local public office.



They call themselves progressives; they engage in community organizing, not class struggle; and it isn't "socialism" they're striving for—it's "economic democracy."

next five years and instead moved to New England, where the issues, he says, were all concrete commonsense ones like culverts, potholes, and school bus routes.

In 1972 he worked for McGovern, was involved in a couple of governor's races over the next few years, and began to notice an interesting phenomenon—some of the same people who, like himself, had been active in leftist politics in the early '60s were now conducting successful campaigns for public office. Loni Hancock was a city councilwoman in Berkeley, California; Sam Brown, the state treasurer in Colorado. There was a comptroller in Houston, a mayor in Mississippi, and a county judge in Texas. If these people met and exchanged ideas, thought Webb, they might be able to help one another.

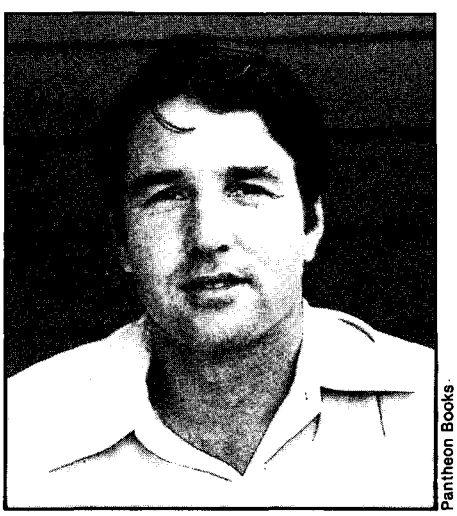
Webb had, several years earlier, been a student and then a research assistant at the Institute for Policy Studies, a left-wing think tank in Washington, D.C. Now he called upon the two cofounders, Marcus Raskin and Richard Barnet, for a $500 grant to travel around the country and bounce his idea off those leftists-turned-politicians. Webb visited Boston, Hartford, New York, Los Angeles, San Francisco, Berkeley, Denver, Minneapolis, Madison, and Chicago. Not long afterward, IPS put up $10,000 to launch the nonprofit, tax-exempt Conference on Alternative State and Local Public Policies (they later removed *Public* from their name).

Every year since 1975, the group has held a summer conference for local activists, community organizers, leftist intellectuals, and progressive state and local officials. It distributes a bimonthly newsletter and has published scores of books and pamphlets. In a conscious attempt to avoid the sectarian squabbles have wrecked so many leftist organizations in the past, the conference neither takes stands, elects officers, nor passes resolutions. What it does try to do is spread the conviction that state and local government will be the major arena for progressive change in the '80s—it's been growing twice as fast as the federal government, they like to point out. The progressives already have dozens of grassroots organizations firmly in place around the country (see box, p. 34). And history, they believe, is solidly on their side.

State of the Nation
(A View from the Left)

As the left sees it, what the people need but don't have is power. Why don't they have it? Because it is unfairly, unreasonably, and undemocratically concentrated in multinational corporations and the federal government. The left's goal is to eliminate these concentrations of power and instead spread it through all levels of society.

They do not, however, want this called socialism. In the words of Derek Shearer, a progressive economist, a lecturer at UCLA's School of Architecture and Urban Planning, and coauthor of *Economic Democracy: The Challenge of the 1980s,* socialism "has a bad name in America." People mistakenly identify it, in its mildest form, with the bureaucratic welfare state and, in the worst case, with "Russian totalitarianism"—"and no amount of political education or wishful thinking on the part of the left is going to change that in our lifetime." So Shearer recommends that the left avoid the language of alien ideologies. He himself claims credit for coining the term *economic democracy,* a phrase implying that democracy can be extrapolated in a simple, straightforward way from our familiar political democracy to the economic sphere and therefore that economic democracy, unlike socialism, is in no way strange or dangerous or at all un-American.



Pantheon Books

"Economic democrat" Derek Shearer

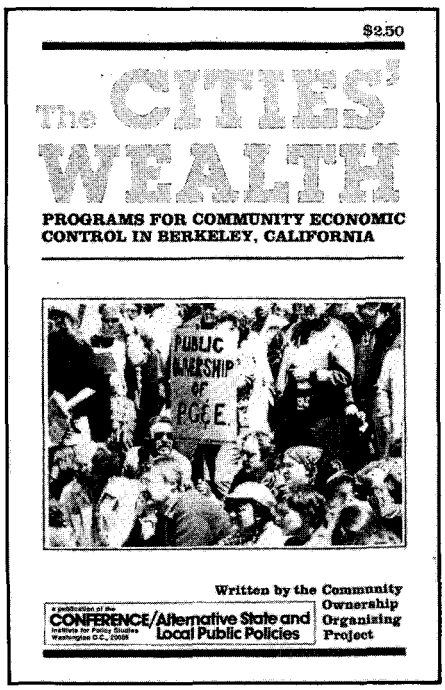
Consider, then, what economic democracy amounts to, by Shearer's account: Ownership of business enterprises would be "heterogeneous and diffused, with the government—state and local, as well as federal—unions, churches, pension funds, workers, community groups and private families all owning and running businesses." To create such an economy, there would have to be a "dramatic increase" in cooperatives (Shearer himself was appointed by President Carter to the National Consumer Cooperative Bank), community development corporations, worker-owned enterprises, and public enterprises to off-set present-day domination of the economy by multinational corporations." To bring about such changes, Shearer estimates that the left first needs to "collect" some 20 to 30 governors, an equal number of big-city mayors, 10 to 20 senators, perhaps 50 House members, the leaders of three or four national unions, and the support of a sympathetic president.

By necessity, the left is organizationally loose. It's not centered on a labor party. There isn't any correct line. But the goal is everywhere the same—learning how to win and use political power.

Despite the Reagan landslide, the left has high hopes for continued success throughout the '80s, which it sees

as a time of profound change. Although conservative forces seem temporarily to be in the ascendancy, "the right," according to Steve Max, an instructor in community organizing at Chicago's Midwest Academy, "cannot for long conceal the fact that it is the organizational vehicle of the corporate program." And with every passing day, more working people will realize that the "program of the corporate right won't solve the country's problems."

As people become disenchanted with the right, however, there won't be the siren call of the liberal center to bury, betray, and otherwise co-opt the leftist alternative, for the centrist alliance that has dominated national politics in this country since the end of the Second World War is fast falling apart. "The basic assumptions on which it was based no longer apply," says Institute for Policy Studies director Robert Borosage. As the left sees it, the faltering economy has pulled all the props out from under the liberal platform. For too long liberals identified themselves with a growing bureaucracy fueled by an ever-expanding federal budget as the best way of helping poor people. In an era of austerity, the liberals have been stripped of their program. They're confused and demoralized, their credibility next to zero.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Progressives, on the other hand, says Lee Webb, because they are concerned—as liberals never were—with the "structure" of the economy and government, are able to offer a program that increases services and benefits to citizens without increasing the budgets of local governments. He offers rent control as an example. "It's a direct way of benefiting tenants," he says, that doesn't require an increase in taxes.

It isn't necessary, says Steve Max, that the left go into great detail describing some ultimate society—"in fact, it's better that we don't." But the left could at least project an "interim vision" for the '80s and '90s of a society free of corporate domination, a vision that people will feel "is worth working and fighting for."

The Interim Vision
(The Wealth of Cities)

A comprehensive strategy for achieving "community economic control" was set out a few years ago in a leftist treatise called *The Cities' Wealth.* Financed in part by the Institute for Policy Studies and published and distributed by the Conference on Alternative State and Local Policies, the book grew out of the first heady successes of progressive activists in Berkeley, California, in the early '70s. "We have compiled" this book, say its authors, "with the intention of sharing the Berkeley experience as widely and usefully as possible."

The premise of *The Cities' Wealth* is that the political power of city government can be used to control and reallocate wealth at the local level. And in this control, housing is presented as the key. Not only does housing account for the largest part of a community's wealth and a substantial part of household spending, but "housing can be controlled far more easily than other forms of wealth which are moveable and beyond the scope of legal regulation by the city." The ultimate goal, says *The Cities' Wealth,* is community ownership of all housing and real estate. As "interim steps" toward this goal, the book suggests tenant unions, rent control, "neighborhood preservation ordinances," city-subsidized rehabilitation of low-income housing, and strict enforcement of building codes—all effecting "the expropriation of income property values."

With rent control, for example, "a city may actually reduce the present value of a property. This is essentially community expropriation in favor of tenants." In fact, says *The Cities' Wealth,* if rent control is confiscatory ("stringent") enough, the housing market will collapse because "other private owners would be unlikely to buy the property in such an unfavorable climate." Then, unable to earn any profits and lacking other buyers, landlords will sell their property cheaply to the city or to the tenants themselves under the progressives' desired form of joint ownership—limited-equity co-ops, which are essentially condominium arrangements with controls on the resale price, the idea being that no one (not even "downtrodden tenants") should profit from any appreciation in property value during the period of ownership (see graph, p. 27).

Another passage in *The Cities' Wealth* suggests using the city's police powers to "demand housing repairs of landlords without compensating them for the cost. If a landlord refuses, the city may make the desired improvements at public expense, place a lien on the property, and then sell the property, preferably to the tenants." More conventional housing regulatory powers, too—condemnation, downzoning, limits on condominium conversions—can be used to create "a climate for community ownership by acting to reduce the value of income property prior to community acquisition."

As the left tells it, such draconian measures are justified because of what *The Cities' Wealth* characterizes as the "abject failure" of the free market to provide adequate housing for low- and middle-income Americans at a price they can afford—not that the left blames the soaring costs of renting an apartment or buying a home on any shortage of housing. To a large extent, the left simply rejects the notion of supply and demand, arguing instead that the cost of housing has been driven up by rapacious speculators, those greasy guys in blue suits and black shoes who descend on a community unannounced, gorge themselves on frenzied real estate

deals, and are out of town before dark, fat with their unearned profits. And the cause is pure greed ("the greedy raking off the needy," was the way I once heard a community organizer explain it to the Los Angeles City Council).

In the rhetoric of the left, some things are just too important to be left to the machinations of the so-called free market, and one of these is housing. Take the profit out of housing, and you'll solve the housing crisis overnight.

And so it goes with the rest of *The Cities' Wealth* agenda: structural changes, and not just reform, of every aspect of a city's economic and political life, including utilities ("a point of entry for broad public ownership of productive enterprises"), banking ("to control the wealth within municipal boundaries"), cable television, transportation, social services, insurance, ownership of commercial shops, elections, and taxation. It won't be easy, say the Berkeley activists in conclusion, but by gaining elected and appointed positions in city government, and using the existing powers of city government, the progressives can gradually implement more and more economic redistribution—or, as Derek Shearer reformulates it for the sensibilities of the mass market, "economic democracy."

Leftist Thought in Action
(The California Experience)

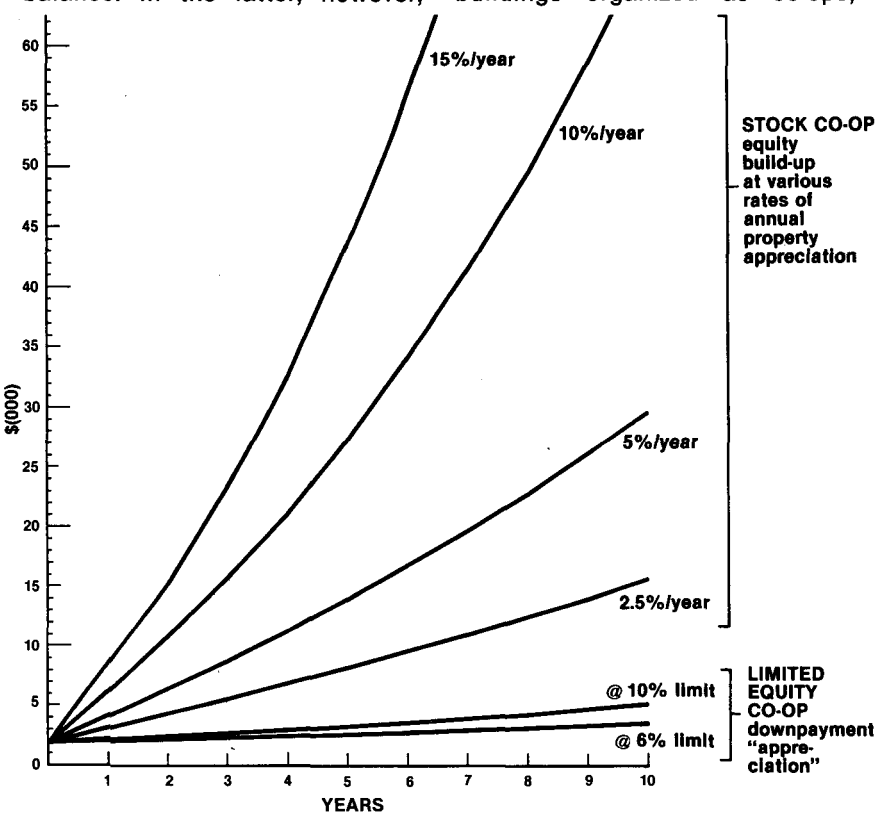
With housing recognized as the key to a community's wealth, the left has been presented with a golden opportunity in California's housing crisis. They weren't the original cause of it, but by pointing constantly to the alleged failure of the free market, they have provided a rationale for restrictive land-use and rent control laws that only guaranteed that the housing industry would not be able to supply shelter at a cost most people could afford. The resulting shortage, in turn, became the justification for still greater governmental intervention, bureaucratic expansion, and public expenditures—the prime beneficiaries of which are the left, both in jobs for activists and the perceived legitimacy of their progressive program.

The roots of California's housing crisis go back 10, 12, and more years

THE "LIMITED-EQUITY" RIP-OFF

This graph illustrates the difference in equity build-up in a conventional stock cooperative and a "limited-equity" co-op. In the former, just as in a single-family home, equity is the difference between the market value of a property and one's unpaid mortgage balance. In the latter, however, equity is limited (as a condition of buying in) to an annual percentage increase on the amount of one's downpayment—typically some fraction of the annual increase in the Consumer Price Index.

For comparison, we assume two physically identical apartment buildings organized as co-ops, with units priced at $40,000. In each case, to promote affordability, the down payment is just $2,000 (five percent).



SOURCE: Community Research Council (Santa Barbara, CA)

The bottom two curves show the equity build-up as the $2,000 down payment is augmented by either 6 or 10 percent annually (typical values in actual limited-equity projects in California). The upper curves show the much larger equity build-up—starting from the *same* $2,000—based on property appreciation in the conventional stock co-op and assuming a 12 percent, 30-year mortgage. Even if the property only increases in value at 2.5 percent a year, at the end of 10 years the purchaser has almost $16,000 in equity. For greater rates of appreciation, the equity build-up is far greater.

What a limited-equity co-op *does* accomplish is to keep the "price" of units artificially low and therefore permanently below market levels. While this benefits new members when they buy in, it does so at the expense of equity build-up over time for all members. And equity build-up is the principal value of home-ownership. Conventional stock co-ops and condominiums are the traditional way for lower-income people to take the first step on the ladder of home ownership, building up enough equity to move up to something better later on. The limited-equity co-op cuts this rung off the ladder altogether.

—R. P.

ago, to the time when people first began expressing their tentative misty yearnings for a better quality of life. Those desires were initially diffuse, confused, often clothed in the rhetoric of some other goal. But eventually a basic theme emerged: people felt beseiged by heavy traffic, rampant growth, bad air, a ravaged coast, vanishing open space, and a tidal wave of immigrants. What they wanted was control, not chaos; order in their lives, not accelerating change. Many California cities responded with strict antigrowth ordinances. Among the strictest were those of Berkeley and Santa Monica.

With its tree-lined streets, Berkeley has always been one of the most desirable places to live in the entire San Francisco Bay Area. As pressures on the city's housing stock began to grow in the early '70s, increasing numbers of older buildings were being torn down and higher-density apartments put up in their place. Environmentalists saw this as the ticky-tackization of an entire community. Homeowners worried that a growing renter population would hurt their property values. And the left saw an opportunity to strike back at much-despised speculators and developers. The result was the Neighborhood Preservation Ordinance of 1973. Under its provisions, no new construction would be permitted without formal approval by neighborhood residents; there was a moratorium on demolitions; and 20 percent of any new building had to be set aside for low- and moderate-income families. This last requirement was a deliberate attempt to halt all new construction. As was pointed out in *The Cities' Wealth,* proponents "understood that no private, speculative developer would either desire to provide lower class housing, or be able to afford such inclusion without subsidies."

The results of the ordinance were predictable—neighborhoods placed a virtual freeze on new construction. Builders gave up on the city entirely. As demand for housing continued to rise, prices began to escalate. This set the stage for rent control (it had already been passed once in Berkeley in 1972, but in 1976 the courts set it aside for legal deficiencies). And in the wake of Proposition 13 in June 1978, when few if any landlords passed on to tenants the property tax savings that Jarvis had promised, rent control became inevitable.

Santa Monica's problems first began back in 1965, when construction of the Santa Monica Freeway was completed and downtown Los Angeles was now only 20 minutes away. No longer was Santa Monica an isolated beach community of blue-collar workers from the Douglas Aircraft plant. Young professionals flocked to the city to enjoy the perquisites of salt water and clean air. Over the next 10 years, 40 percent of the city's current housing stock was constructed. New apartment houses were going up on every block, prompting complaints from homeowners about traffic, high-rises, and the shrinking ocean view. There was too much growth, the argument went. Santa Monica was becoming another LA. If people had wanted to live in concrete canyons, they'd have stayed in New York.

By 1975 the city council had passed a series of antigrowth ordinances severely limiting the number of units builders could construct on a lot. Prior to 1975 it had been possible to build up to 16 apartments on a 50 x 150 foot lot; now, it was only seven. Apartment house construction staggered to a halt—the economics no longer penciled out. But this, of course, didn't stop the demand for housing. In the words of one landlord, "the $30 blue jean had arrived," and rents that had been "severely and artificially depressed for years by excessive new construction" finally began to rise. This produced a fearful reaction from older tenants, who descended on city hall en masse demanding rent control.

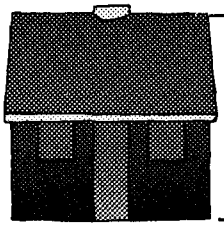
Sun, Surf, and Socialism
(Rent Control for Santa Monica)

The left's account of how they won the Santa Monica rent wars has a certain dramatic, even mythic, quality. As they tell it, it was a battle of David and Goliath, oppressed tenants against corporate landlords. The speculators, they say, had run rampant in Santa Monica. Apartment buildings that in less chaotic times had sold for 10 and 12 times their gross annual rents were, in the months before the enactment of rent control, selling for as high as 18 times gross. They cite out-of-state investors buying buildings sight unseen and business magazines telling their readers that Santa Monica was one place where an investor could double his money in a year. Tenants were regularly being hit with rent raises as high as $150 a month.

Filling in their Goliath view of landlords is the left's account of apartment owners' panic at the prospect of rent control. In the six months prior to rent control, they say, 2,000 to 3,000 persons were displaced as apartments were converted to or replaced by condominiums. In the

Peg Owens

"Solidly middle-class, even wealthy" Santa Monica



The poor are always trotted out as justification for rent control, but the two California cities with the strictest rent control laws are solidly middle-class, even wealthy.

last six weeks, there were so many demolitions for condominium construction that parts of Santa Monica "looked like Vietnam," says Roger Thorton, spokesman for Santa Monicans for Renters Rights. "They were in such a hurry to tear these buildings down, because if it was torn down, you can't rent control rubble. And they were coming in with bulldozers and just leaving a pile of sticks and stones and bricks and wood."

Making the left's victory that much greater in their eyes was the fact that landlord/developer/realtor forces had vastly greater resources, outspending them ten-to-one, while the renters' rights coalition (tenants groups, senior citizen activists, and Tom Hayden's Campaign for Economic Democracy) relied on thousands of individual contributions, assorted fund-raising dances, auctions, and a $4-per-person spaghetti dinner featuring a screening of *Grapes of Wrath* and a personal appearance by Henry Fonda, who read selections from the book.

Although badly outspent, the left had "the people." "We went door to door," recounts Derek Shearer. A thousand persons volunteered. There were phone banks, mass mailings, and precinct walkings. "To me," says CED spokesman Denny Zane, "it was a classic case of popular democracy."

It was also a case of dedicated and experienced community activists running a sophisticated campaign. As Derek Shearer later told the national meeting of the Conference on Alternative State and Local Policies, it became apparent early on that the way to win in Santa Monica was not "to appeal on rational grounds." Instead, the renters' rights coalition came up with what Shearer described as a series of "Alinsky-style media hits," variously publicizing a "tenant dying of cancer" and a "70-year-old" widow who had been evicted in tears by her niece—the mayor, no less. Community organizers became adept at dealing with tenants who protested that *their* landlord, anyway, was a good guy—"He hasn't raised the rent in five years." "That's what we're trying to tell you," the answer would come back; "the place is ripe for speculation." Above all, the left kept up the moral offensive—apartment owners weren't mere landlords. They were "speculators" and "profiteers."

In responding to the leftist campaign, landlords found themselves handicapped by tenant resentment over Proposition 13 and what Santa Monica landlord Jim Baker calls the infrequent but nevertheless "horrifying" impact of speculation. Baker is a retired business executive with substantial rental property. He dresses like a yacht club commodore, wearing double-breasted blue blazers, white turtlenecks, a large gold anchor pendant, and a pencil-thin mustache. His front door is carved like a Polynesian temple, and his doorbell plays the opening notes to Beethoven's Fifth.

According to Baker, many landlords helped dig their own rent-control graves by failing to pass on to their tenants the Proposition 13 rent rollbacks promised them by Jarvis. Instead, the majority of them merely declared a moratorium on rent increases on the grounds that, "If I didn't do something to you, I did something for you." Understandably, the tenants were irate.

In addition, by Baker's account, there were in Santa Monica prior to the rent control victory on April 19, 1979 (a day Baker refers to as "Black Tuesday") certain "amateur" landlords who, through "misplaced compassion, economic ignorance, or cowardice," hadn't raised rents in 10 years. When in the middle and late '70s such landlords found themselves faced with soaring maintenance costs—the price of a new roof having quadrupled from $1,000 to $4,000, the cost of new rugs up from $1,500 to $6,000—they simply sold the buildings rather than jack up the rents. The result, as Baker tells is, was that "speculators" came in, snatched up the more obvious bargains, and then "restored six to ten years of fiscal neglect" in one fell swoop.

"Now, I'm not saying this was widespread," says Baker. He claims it probably didn't affect more than five percent of the units in the city. But in matters of this kind, it didn't take many such instances to have a large impact. There's no way, says Baker, to explain rent raises of $70, $80, or $100 a month to tenants—"They're going to want to take to the streets and lynch you," ignoring the fact that they've had "this tremendous sleigh ride for the past 10 years."

The leftists capitalized on the situation with allegations that tenants were being hit with sudden $150 rent increases all over town—which simply wasn't true, reply the landlords. According to statistics collected by the rent board itself, says Charles Isham, executive vice-president of a Santa Monica apartment owners' association, "approximately 55 percent of landlords in Santa Monica had not raised rents in one or more years" prior to the enactment of rent control. In addition, according to landlord attorney Lowell Wedemeyer, by the rent board's own records again, in the year before rent control was adopted rents citywide only went up 6 percent at a time when inflation was 13 percent. (Although the rent board has refused to make these figures public, board member Bill Allen confirms them.)

Landlord groups were also less than impressed with the rent control coalition's claims that it was a shoestring operation financed entirely by "the people." Santa Monica City Councilwoman Ruth Yannatta Goldway (wife of Derek Shearer) ran an organization called the Center for New Corporate Priorities, which in 1978 received $171,000 in CETA grants for job training. Over an 18-month period, the center placed 57 CETA

The Economic Democrat

Santa Monica Council members Ruth Goldway (l.) and Cheryl Roden, with Rep. Toby Moffett (D-Conn.) and Tom Hayden

trainees with 29 different community organizations, ranging from the leftist-activist Coalition for Economic Survival to the Tenants Action Council. These CETA employees, charge landlord groups, were really campaigning for rent control as well as for Ms. Goldway's election to the city council. Ms. Goldway, however, flatly denies that CETA workers did anything illegal. Cheryl Rhoden, a former CETA worker who also won a seat on the city council in November 1979, says the charges were greatly exaggerated—most of the CETA people didn't even know that she and Goldway were running for public office. (Following a Labor Department investigation and a report on it in the *Wall Street Journal,* however, Ms. Goldway renounced the unspent portions of the grants.)

Other federal funds used in ways that upset landlords, went to a Santa Monica community organization called Communitas. This group received a $250,000 grant from the Justice Department's Law Enforcement Assistance Administration to combat crime in the Ocean Park area of Santa Monica (home to Tom Hayden, Jane Fonda, Derek Shearer, Ruth Goldway, and most of the tenant activists), but some of the money was used to hire community organizers, compile precinct lists, and indirectly fund a pro-rent control community paper, *The Ocean Park Perspective,* which was then delivered door-to-door by Communitas people. In effect, says apartment owner Isham, federal money was being used to spread "rent control propaganda." This charge, local activists don't deny—or, rather, they acknowledge that federal anticrime funds were used for community organizing. According to a *Los Angeles Times* report, they argue that an organized community is a safe community. And anyway, they had explained "up front" when applying for the grant that they intended to use some of the money in areas not related to crime prevention in an effort to unify Ocean Park.

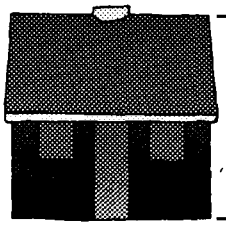
Whether or not federal funds were used to promote rent control, the renters' rights coalition was fabulously successful in turning out the vote. Whereas as recently as 1977 only 19 percent of eligible Ocean Park residents bothered to vote, in the last two rent control campaigns (one to pass the initiative and another to defeat a landlord attempt to water it down) the turnout in the heavily canvassed Ocean Park area was 65 percent—"all of which," says Cheryl Rhoden, "went for us."

How the West Was Won
(The Left's Moral Minority)

Perhaps the biggest reason for the left's success in both Berkeley and Santa Monica has been its ability to capture the moral advantage, to create the impression that its demands for community control of housing are inspired by selflessness and altruism and that its true and only aim is helping the poor. The poor, as it turns out, are a valuable commodity. They are always trotted out as justification for rent control, even though the true beneficiaries are political activists and the middle class. "Rent control is a middle-class phenomenon," says UC Riverside economist David Shulman. The two California cities with the strictest rent control laws—Berkeley and Santa Monica—are solidly middle-class, even wealthy in fact.

As *The Cities' Wealth* itself admits, Berkeley is an unusually rich city, with over $1 billion a year in economic activity, which is twice as much as many cities its size. Stand on any downtown Berkeley streetcorner and throw a rock—you'll hit three banks and four savings and loans. Walk down any Berkeley street, and you'll find yourself passing cafés, boutiques, bookstores, gourmet restaurants, shops that specialize in champagne sausages and liver pâté. You can buy bone china and order hot tubs in Berkeley; but if you should ever need a pair of work shoes, you have to take the bus to Oakland.

Many people in Berkeley dress as if they're poor—blue jeans and work shirts—but it's the kind of poverty that permits them to sit around in cafés all morning drinking cappucinos at $1.30 a cup. To City



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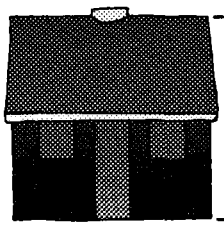


During public hearings over rent control "it became very clear," says Councilman Bill Segesta, "that if Berkeley did have a working class, it was the landlords."

Councilman Bill Segesta, such people are the soon-to-be upper-middle class—"They're in the position that one day the old man is going to die in Cleveland and leave them the proceeds of his law practice." They invariably have a college degree, if not several; and although they may be poor today, tomorrow they can be earning $25,000 a year, "because those are...the streams they fish in." Try going to a public meeting sometime, advises Segesta. The people who get up to speak are either lawyers, doctors, or architects. "It's never some poor schlep who works at Ford—that's unheard of."

During public hearings over rent control "it became very clear," says Segesta, "that if Berkeley did have a working class, it was the landlords"—they didn't have university degrees; they weren't sophisticated about investments; they worked for wages, saved their money, and bought apartment houses. Nevertheless, during the hearings they were attacked by tenant organizers, called "pig landlords" by young, white, middle-class Berkeley activists who, as Segesta says, have "trust funds" and "inheritances" and "had gone to college by virtue of their dad being a fancy eye surgeon back East."

In the Berkeley *newspeak,* however, tenants are the oppressed masses; landlords, fat capitalists. This despite the fact, says rent board commissioner Martin Overstreet, that one-fourth to one-third of the city's landlords are black.

"A couple of months ago," says Overstreet, "I got a frantic call." It was from a black man, a letter carrier, 62 years old with mandatory retirement staring him in the face. He had, some 18 years earlier, bought a slum and fixed it up. Now the four white, middle-class students he had for tenants had gone on a rent strike. "And all of these students will take a degree," says Overstreet, "and parlay it into these $25,000-a-year jobs." Five years from now their politics will have shifted 180 degrees, and they'll own portfolios and be talking on the phone to stockbrokers. But in the meanwhile, they're withholding rent from this elderly black man because he's a landlord and therefore a "criminal," a "slavekeeper."

Charles Isham, too, disputes the moral distinction the left always makes between landlords and tenants. What difference does it make, asks the Santa Monica apartment owners' spokesman, if "one just bought an apartment and the other bought AT&T stock"? The stockholder at least has the chance to match the inflation rate, but now the apartment owner is limited to whatever profit crumbs the rent board throws his way. (The Consumer Price Index has gone up 29 percent in the 18 months after rent control was enacted, while rent increases over the same period were limited by the Santa Monica board to 13 percent.)

The Santa Monica rent board has gone so far down the road toward "a class warfare state of mind," says landlord attorney Lowell Wedemeyer, that it now sees *all* property owners as "evil" and only tenants as "impoverished," and "downtrodden." In fact, he says, many small landlords don't have any retirement pensions. "They chose to put their labor and their money into an apartment building," one of the few ways people without a great deal of financial sophistication can protect their savings from inflation. By refusing to recognize that fact, says Wedemeyer, the rent board is "making paupers out of these people."

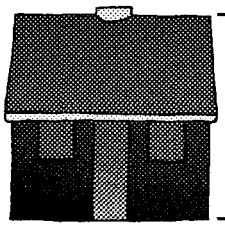
As Berkeley and Santa Monica go, so goes the nation. That is the goal of the left—to win control of certain vulnerable cities and then, using those cities as a "secure base," to expand outward until, having won in enough cities, they can, in the words of Derek Shearer, "talk about running someone for president and changing national policy." Rent control is clearly just the opening shot.

Berkeley is already in the leftist column, with progressives controlling the rent board and five of nine city council seats. In Santa Monica, progressives control all five seats on the rent board (the left ran a unified slate, while the opposition split its vote over some 59 other candidates) and three of six city council seats (one seat is currently vacant, the previous mayor having died in a plane crash at sea). If the left can win two of the four openings in April's city council elections, their first step will be to hire what Shearer calls "a progressive city staff," not only to support them administratively but to enable them to schedule progressive national conferences in Santa Monica, which by then will be in the process of becoming what Shearer calls "a progressive model city." Once media attention was focused on Santa Monica, the city would serve as an example to the nation "of the way cities ought to be run." The problem is to win in April and then, as Shearer says, to "govern decently."

How Has the Left Governed?
(Democracy in Berkeley)

In Berkeley, political power is currently in the hands of Berkeley Citizens Action, the object of emulation in *The Cities' Wealth.* A leftist political machine (it prefers to be known as a coalition) with roots running back to Robert Scheer's 1966 antiwar congressional campaign, BCA finally won a working majority on the Berkeley City Council in April 1979, after more than a decade of trying.

One of the council majority's first priorities was to get rid of the city manager they'd inherited—a ticklish job, since he was a black man, and there's a considerable body of leftist opinion in Berkeley that holds that one should never, for any reason, oppose a black who has managed to win public office. When BCA did finally ease him out, they replaced him with another black, described by one ex-



The goal of the left is to win control of certain vulnerable cities like Berkeley and Santa Monica and then, using those cities as a "secure base," to expand outward.

asperated city council member as "a middle-level bureaucrat from a third-rate university," whose principal qualification was that he was the candidate of a councilwoman whose defection to their side was needed by the BCA contingent in order to convert an elected minority of four into a working majority of five.

One thing the new majority has been able to accomplish so far is to create fear and frustration in the long-time city staff. According to a state-of-the-city report by the city manager in 1980, the "polarization" on the council is so severe that city staffers hesitate to identify problems for fear the council "might fire them." A position paper prepared by a new anti-BCA political group says the city staff is "severely demoralized" and many of the most talented and energetic people—including two city attorneys, the housing director, two special assistants in the city manager's office, plus various deputy administrators, associate administrators and analysts—have left in frustration." "Their talents and expertise are ignored and abused," the report continued. "They are permitted no authority to perform their tasks. They are burdened with demands for spurious reports and research. The Council majority is constantly confronting them with unpredictable and conflicting demands. Job security has come to rest precariously on political conformity." One long-time Berkeley resident active in the black community says he hates to go down to city hall anymore, because even before they ask you what you want, they first want to know "what your politics are."

At budget time, much of the BCA council majority's energy is spent in finding ways to increase taxes to support not only the city's extensive social service agencies but also several dozen nonprofit agencies. They have ordered parking meters installed in areas that didn't yet have them, increased parking fines, raised building permit and plan check fees (from $7,000 to $44,000 in one low-cost housing project) and, in last year's budget, attempted to raise $295,000 by imposing $40-$100 fees on businesses for what Councilwoman Shirley Dean calls a "nonexistent fire inspection"—"They never intended to give it," says Dean, "there was no program attached." At one point, they also introduced a plan to save $34,000 by demoting 12 Berkeley police officers on the grounds that the department was top-heavy with senior officers. But they had to back down when it was discovered that the people most affected would be women and blacks.

In another instance, they tried to save money by requiring people to carry their trash cans out to the street (at present, Berkeley trashmen come into the backyards and pick it up themselves). But they failed to take into account opposition from senior citizens and the black sanitation workers union.

They did successfully raise permit fees for sidewalk food vendors from $40 to $1,500 when they were told that one supposedly low-income fruit juice vendor was clearing $70,000 a year. And they created an architectural review board to approve design of the food carts.

Undoubtedly their biggest coup, however, was Measure E, a library tax. The city wanted more money for social services. Knowing that an ordinary tax increase was likely to be defeated, they appealed instead to the vanity of the voters—Berkeley was one city, by God, where people respected learning, and they weren't about (post-Proposition 13) to let the library lights go out just to save a few crummy bucks. The measure, which promised to free over $2 million from the general fund and provide the libraries with an independent tax base, passed overwhelmingly in June 1980. "The library was the only thing we could have done it with," says leftist City Councilwoman Florence McDonald (mother of Country Joe McDonald). "It was like brotherhood and apple pie."

A major factor in the left's continued success in Berkeley has been its ability to attract and hold the student vote, especially on issues like rent control. BCA partisans dominate the student government and campus paper, and there's a strong campus chapter of the Campaign for Economic Democracy. So far it seems not to have dawned on students that rent control might not be in their best interests. Given a choice, landlords tend to prefer older married couples to the marginal stability of students. Furthermore, because of the economic recession, graduate students are taking fewer courses, thereby stretching out their degrees. The result in the south campus area is that housing has become virtually unobtainable. A campus study shows Berkeley's 30,000 students now living an average of 6.3 miles from campus, up from 5.7 miles just a year ago. "It's tighter than ever before for students," says Councilwoman Dean. "Why students ever thought they would benefit from rent control is beyond me."

Far from making any pretense at fairness, the Berkeley rent board, in the eyes of landlord boardmember Martin Overstreet, rather sees itself as "the principal tool for expropriation of a landlord's property"—the entire hired staff "reads like a roster of radical attorneys." Even though the law requires deliberations of the board to be public, they hold closed executive sessions under the excuse that the discussion involves potential litigation. What they're in fact, talking about, says Overstreet, "is how to organize tenants and how to organize rent strikes."

And when they do hold open meetings, instead of determining policy

they spend all their time drafting regulations, correcting punctuation, dotting i's and crossing t's—"inane inefficiency," says Overstreet. They're mandated by law to grant annual general adjustments, but they've been caught between the requirements of constitutionality (under a 1976 California Supreme Court decision, rent control must allow landlords a "fair return" on property) and their radical supporters, who don't think that the 1980 rent control initiative was confiscatory enough. So because they don't know how to deal with the real issues, says Overstreet, they duck them and do what they "know how to do—housekeeping." In December 1980 they finally approved a general rent increase of five percent, but they haven't even begun to accept petitions for exceptions allowed for under the law.

Overstreet was appointed to Berkeley's rent board by (non-BCA) Councilwoman Gilda Feller and was the only landlord on the board. But when the property management firm in which Overstreet is a partner voted (against his wishes) to join a suit by 30 other landlords against the 1980 rent control law, the tenant board members promptly moved to expel Overstreet for conflict of interest. Upon discovering that they had no such authority, they drafted a regulation for just that purpose and expelled him again. (Overstreet has since obtained a temporary restraining order reinstating him to the board). Actually, it wasn't any alleged conflict of interest that bothered the board, says Overstreet, so much as his insistence on reminding them of the economic facts of life—"They can't tolerate that alternative voice."

In response to what it considers the abject failure of private housing in Berkeley, the left has long promoted "nonprofit cooperative ownership of housing." *The Cities' Wealth* holds up as an example Savo Island, an attractive 57-unit townhouse complex in west Berkeley. Its directors consider the project so successful that they schedule tours for college students in city planning.

In fact, observes Martin Overstreet, Savo Island is a "massive failure that can only succeed with massive subsidies." Councilwoman McDonald confirms that residents of all but 10 of the units are subsidized by the Section 8 (rental assistance) program of the federal Department of Housing and Urban Development. The city of Berkeley laid out money—nearly a million dollars, according to Councilwoman Dean—for the project's "predevelopment" and land costs. HUD then guaranteed two construction loans at below-market rates—one at 3½ percent and the other at 7 percent. In spite of all these subsidies, the monthly payments for residents still run from $335 for a one-bedroom apartment to $650 for a four-bedroom. "I wish *my* rents were that high," says Overstreet.

Leslee J. Newman

Berkeley's much-touted Savo Island housing project

How Has the Left Governed?
(Justice in Santa Monica)

Derek Shearer's hopes of turning Santa Monica into a progressive role model for the rest of the nation's left got off to a slow start when the rent control victory left many of the city's landlords in a state of near hysteria. They packed the early meetings of the rent board, booing through the Pledge of Allegiance, invocation, and minutes of the last meeting, whooping and hollering when tenants tried to speak, and on one occasion becoming so unruly that board members had to leave city hall under police guard. One woman who tried to protect Legal Aid attorney Robert Meyers (author of the rent control initiative) from a jeering, shoving crowd was herself slugged by a realtor (she later collected $1,500 in an out-of-court settlement).

Cheryl Rhoden, city councilwoman and staff member of the Campaign for Economic Democracy, was threatened on her answering machine. Anonymous callers attacked board member Gerald Goldman as "a communist jew pig" and suggested that he "go back to Russia." His garbage cans were overturned in the night. One morning he discovered that someone had beaten his Porsche with a ballbat and crowbar. One person wrote to attorney Meyers claiming that Meyers was suffering from an advanced stage of "dementia" caused by "the poisonous infections of his brain from the fluids created by his misguided hatred of the free society in which we live." Although in Meyers's opinion the rent control law "hasn't made landlords treat their tenants with any more decency," at least it has exposed landlords for what they really are—"greedy, violent people who use almost any tactic

to exploit their tenants."

In spite of their raucous behavior, Santa Monica City Councilwoman Cheryl Rhoden says she feels sorry for small landlords making their first appearance before the rent board. It was obvious they weren't used to dealing with governmental authorities. Their voices quavered and their hands shook. "They were so scared," says Rhoden. And the irony of it all was that they "were upset over things that weren't true—they thought their savings and property were going to be confiscated."

But what else can one call it, asks Santa Monica apartment association director Charles Isham, when the board grants a "permanent $35-a-month rent reduction" to a tenant because his garbage disposal broke down on a Friday night and the landlord didn't get it repaired until the following Monday morning? Or what about the time a tenant complained that the previous occupant of the apartment had broken off "eight of the little rubber prongs that hold up the dishes in the dishwasher" and there was "a slash in the screen of the laundry room," and this merited a "permanent $81-a-month rent reduction"? Both of these cases were appealed to superior court and both were overturned, "but don't forget," says Isham, that "it cost the owner $5,000 to overturn that little $35 a month."

When first proposed, rent control was touted to the voters of Santa Monica as a lean, trim operation, costing no more than $400,000 a year. Furthermore, since landlords would be supporting the entire cost with their registration fees ($12.50/unit/year), it wouldn't cost the tenants—or the city—a thing. The first thing that happened (Berkeley suffered the same fate) was that many landlords simply refused to pay a fee that they felt was only going to be used to finance a board whose whole thrust was to deprive them of as much of their property as constitutionally permissible.

In the meantime, during the first 18 months of its operation, the cost of the rent board mushroomed from the original $400,000 estimate to $1.7 million for the current fiscal year. They now have the equivalent of 55 full-time staff people, including hearing officers, attorneys, and their own prosecutor. To raise additional money, they've been forced to increase the annual registration fee from $12.50 to $48.00 a year and this time around allow landlords to pass on the cost to their tenants. Rent Commissioner Goldman says most tenants gladly pay the $4 a month "to save $100 a month." Isham, meanwhile, estimates that if they continue spending at the same rate, next year the annual fee will have to be raised to $100.

"No one expected the workload and lawsuits that [the rent board] has had," complains Rent Commissioner Neil Stone, bristling with indignation at any intimation that the board is unduly overgrown and bureaucratic. "The assumption that the public sector is more efficient than the private sector is pure rubbish." And it's "hard to realize," he says, but "we are a brand-new government. It's not like adding a new department. We are creating an entirely new entity. That doesn't happen very often in this country."

And what extraordinary powers this "new government" has, notes

THE LEFT'S INTERLOCKING DIRECTORATES

While America's been "turning to the right," the left has been busy building the political, institutional, and intellectual scaffolding that will allow them to push through their agenda:

- **Citizen action groups.** They may have as many as 75 people on their staffs and encompass several states. They tend to be aggressive in canvassing, lobbying, running initiatives and referendums, and, in some instances, running candidates for public office. Some of the best known are *Massachusetts Fair Share,* which claims a membership of 20,000 families; *Ohio Public Interest Campaign* (OPIC), which has a newsletter going to some 15,000 households; *Connecticut Citizens Action* (CCA); *Illinois Public Action Council*; the Hayden-Fonda *Campaign for Economic Democracy*; the New Orleans-based *Association of Community Organizations for Reform Now* (ACORN), organized in 11 states; the *Movement for Economic Justice*; and various public interest research groups—PIRGS—invented by Ralph Nader and funded by college student fees.
- **Nonprofit policy research centers.** These groups hold conferences, support researchers, publish newsletters and books, and collect and disburse funds from and to other nonprofit foundations (see funding data below). Prominent among them are the Washington, D.C.-based *Institute for Policy Studies* (IPS); its former West Coast arm, now independent, the *Foundation for National Progress*; (Gar Alperovitz's) *National Center for Economic Alternatives*; the *National Center for Policy Alternatives* (parent to the Conference on Alternative State and Local Policies); the *Industrial States Policy Center* (Cleveland); the *California Public Policy Center* (Los Angeles); the *Institute for Community Economics* (Cambridge, Mass.); *Community Economics* (Oakland, Calif.); *Planners Network* (San Francisco); etc., etc.
- **Progressive coalitions,** such as the *Citizen/Labor Energy Coalition* led by William Winpisinger, president of the International Association of Machinists & Aerospace Workers; *Citizens for Tax Justice*; the *Progressive Alliance,* led by Douglas Fraser of the United Auto Workers; and the *Conference on Alternative State and Local Policies.*

The Progressive Alliance is a network of more than 100 organizations, including the UAW, the Communications Workers of America, the American Federation of State, County, and Municipal Employees, and the International Ladies' Garment Workers Union (in all, 25 trade unions are members); environmentalists (including the Sierra Club); citizen action groups (such as Mass. Fair Share); the American Indian Movement; IPS; and Marxist Michael Harrington's Democratic Socialist Organizing Committee.

The 1980 Steering Committee of the Conference on Alternative State and Local Policies included representatives from citizen action groups

landlord attorney Lowell Wedemeyer. It makes its own rules, acts as its own trial court, and then enforces its own decisions. "These people even have their own criminal prosecutors, and they just order them [the landlords] into criminal proceedings whenever they want to raise the stakes."

Because all five rent board commissioners were elected on a tenants' rights slate, landlords characterize the board as a glorified kangaroo court. Its rules, they believe, are designed to obstruct landlords at every step. Petitions for higher-than-general rent increases require filling out an 18-page form (a tenant's petition is two pages) and submitting three years' of personal income tax forms, which then become public record. Although the rent board was theoretically to have functioned as a kind of people's court, landlords have found that they need $75-an-hour attorneys to fight for their rights before the hearing officers. In the words of apartment owner Jim Baker, the officers are all "young aggressive adversary attorneys," and unless a landlord is experienced in such proceedings he'll find himself "chopped to pieces."

If a landlord is dissatisfied with the ruling of the hearing officer, he can appeal the decision to the rent board. If, as most often happens, he is unhappy with the board's decision as well, he then has the option of taking the matter to superior court. Because the legal costs of such appeals often run as high as $5,000, most landlords don't bother to proceed—a fact, says Charles Isham, that the rent board counts on. In those instances where landlords have appealed negative decisions on their rent increase petitions, they've done very well, he says, winning "all but one out of a total of 25 or 30. (Some 90 other writs are currently pending.)

A victory in superior court doesn't automatically solve the landlord's problems, however. The rule of administrative law is that the court does not substitute its own judgment or discretion within the area of the defendant agency's jurisdiction. In most instances, the court merely orders the rent board to rehear the case from the top.

The defect in the system, says attorney Wedemeyer, is the court's erroneous assumption that the landlord is getting a fair hearing from the rent board; "But what kind of a fair judicial hearing do you get from an adversary that represents the other side, and who says up front, 'I represent the other side—that's my job.'?" The landlords have no "economically viable method of achieving justice," he concludes, "because the courts are too cumbersome, too slow, too expensive, and the attorney's fees are grossly in excess of any cash flow benefit."

"I can't get any justice for these people," says Wedemeyer. "I do my damnedest, and it is just not available."

(OPIC, CCA, and others), labor unions (Machinists), policy centers (IPS and others), and other progressive alliances, as well as elected local officials from across the country.

- **Elected officials and leading lights,** such as Ron Dellums, elected to the US House from the Berkeley, California, area; Georgia State Rep. Julian Bond, Detroit City Councilman Ken Cockrel; New York City Councilwoman Ruth Messinger, and Texas Railroad Commissioner Jim Hightower; Derek Shearer, Michael Harrington, and Marcus Raskin.
- **Publications,** such as *Working Papers for a New Society, Mother Jones* (published by the Foundation for National Progress), and *In These Times,* a weekly published by IPS.
- **Alternative Institutions,** such as food co-ops, worker-owned stores, newspapers, schools, technology consulting groups, and demonstration projects. Providing noncapitalist training for such institutions' "coordinators" (managers) is the *New School for Democratic Management,* an alternative business school started by the Foundation for National Progress and assisted with funding by the National Consumer Cooperative Bank, a taxpayer-funded federal agency.

Where does the money come from? Here is a partial listing of grants reported in 1979.*

Shalan Foundation	$ 5,000	IPS
	15,000	Movement for Economic Justice
	15,000	Industrial States Policy Center
	21,000	National Center for Policy Alternatives
	10,000	Ohio Public Interest Campaign
	5,000	Public Interest Economics/West
Stern Fund	20,000	Institute for Community Economics
	15,000	Movement for Economic Justice
	20,000	New School for Democratic Management
	20,000	California Public Policy Center
	25,000	National Conference on Alternative State and Local Policies
New World Foundation	15,000	Movement for Economic Justice
	20,000	Industrial States Policy Center
	21,000	National Center for Policy Alternatives
Field Foundation	35,000	IPS
Charles Stewart Mott Foundation	15,000	Community Economics

*SOURCE: The Foundation Center

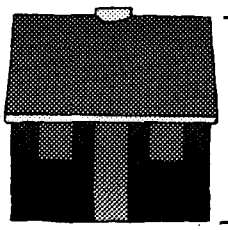
—P. C. and M. Z.

What the Left Really Wants

(A Personal View)

I sometimes think the left has such a hidden agenda that they don't fully understand it themselves. On the surface, they talk about democracy, equality, social justice, and compassion. What they really mean is power.

As I interviewed various leftists for this article, I had a recurring conversation. In their view, virtually all of this country's social and economic ills



"I can't get any justice for these people," says landlord attorney Wedemeyer. "I do my damnedest, and it is just not available."

are in one way or another related to corporate abuse of power. Corporations ruin the economy, destroy jobs, promote materialism, and trivialize the intellectual atmosphere. And the bigger they get, the more evil they become. Worst of all are the multinational corporations, which are independent governments, complete unto themselves, and totally outside any societal control.

When they'd finished, I'd offer my point of view: "Look, I'm no friend of corporations, and you can't get me to defend them, but in the grand scheme of things I'm a lot less afraid of them than I am afraid of the US government. I mean, if I decide not to buy a new Citation, there's nothing General Motors can do to me. But just let me decide not to pay my taxes some time, and sooner or later someone shows up on my doorstep with a gun in his hand."

I'd then go on to explain my theory of personality types. As I see it, there are two kinds of people in the world—those who are content to live and let live and those who have a vision of some ideal society that they want to impose on the rest of us for our own good.

Now, among the live-and-let-live types, I suggested, are businessmen who, whatever else their faults, at least don't go around trying to impose their own values on their customers. In fact, their whole thrust is just the *opposite*—to find out what their customers want and then to fill that need so well that people will actually be willing to reach down into their pockets and pay for it. The visionary types, on the other hand, are the leftists. They decided in advance what an ideal society should consist of, and all that remains is to get the rest of us to go along.

At this point, I'd usually find myself accused of naiveté (if not a good deal worse). How innocent of me, they would say, to think that corporations in any way care what their customers want. In fact, they told me, most companies take the opposite view. First, all the white male executives get together in the conference room and decide what it is they want to sell, the price they want to get, and the advertising budget required to make people now go out and buy it.

But surely, I'd say, you don't think people are so stupid that they would buy something they don't need and can't use just because they saw it advertised on TV?

In fact, that is exactly what they meant. And the more I talked to them, the clearer it became. Basically, leftists are people who feel fundamentally powerless—not only powerless to resist television advertising, but in a real sense powerless to control their own lives. To be a bit metaphysical about it, it seems to me that the leftist view of the human condition is that we are all particles of dust, buffeted and scattered by the universal cyclone, and our only hope, if we have a hope, is to join hands in some comradely fashion, pull together, and thereby hold the howling cosmic wind (temporarily) at bay.

As to why this should be, I don't know, but I'm sure it's related to what I've long observed as the tendency of leftists to feel as if they can't cope with the physical universe. Most of them, it seems to me, are technologically incompetent, a characteristic they take pride in when they aren't railing against overpriced plumbers, unscrupulous auto mechanics, and planned obsolescence in general.

I remember once, 10 years ago, sitting in a Berkeley park listening to an antiwar rally, the culmination of which was a speech by Tom Hayden. At one point the mike went dead, whereupon the moderator variously tapped on it, blew in it, and jiggled the connections until suddenly the sound returned. "The spirit of the people is greater than man's technology," he announced, whereupon the crowd responded with loud cheers. That was the way people used to think in Berkeley (and many still do). They saw technology as some kind of malevolent magic that can only be overcome by an even greater force—the mystical spirit of the people.

To give another example: When I recently interviewed SDS cofounder Richard Flacks (now a sociology professor at UC Santa Barbara), he at one point referred to himself as "technologically inept"—a small point, to be sure; but in talking to leftists, I keep encountering the same familiar attitude. A few months ago, while talking to an official of the Foundation For National Progress (publisher of *Mother Jones*), I asked why it is that the implicit thrust of so many of that magazine's articles is the need to regulate corporate activity. Her answer was almost a wail—"But they've got all the science and technology."

To me, this is a key point. If, for whatever reason—urban upbringing, middle-class conditioning, or genetic inaptitude—a person feels he can't manipulate the physical universe, then that person obtains his sense of security in the world by seeking to manipulate those people who actually do the building, growing, and manufacturing of those things we need to survive. Now, no one begrudges the left power over their own destiny. The problem is that they want power over everyone else's destiny, too. This is why it's hard to compromise enough to satisfy the left. Their announced agenda might be equality, fraternity, and redistribution of the wealth, but their subconscious need is really for power. And no matter how much they win or take, it isn't likely ever to be enough. ◻

Paul Ciotti is a free-lance writer who lives in the Los Angeles area. He has a B.A. in humanities and a B.S. in mechanical engineering from Columbia University. He spent five years in the Navy "chasing Soviet submarines" and lived in Berkeley, California, for eight years pursuing a graduate degree in journalism.

CAN THE POLES PREVAIL?

By Williamson Evers

Since the outbreak of strikes in Poland last July, the world has held its breath. Another Hungary? Another Czechoslovakia? Would another effort to liberalize a Communist country lead to another invasion by Russia?

The Poles themselves know how delicate the situation is. Jacek Kuron, a leader of the dissident Social Self-Defense Committee, has said, "We must work to increase the area of freedom and to diminish the areas of totalitarianism, without exceeding the limits set by Soviet tanks."

GRASSROOTS REFORM

The Poles are trying a new approach in their effort to liberalize a totalitarian country. In the past, liberals in Communist-ruled states have tried to open up the societies by taking advantage of rivalry within the ruling elite and siding with an out-of-power faction that could use the popularity of a more liberal program as a stick with which to beat the faction in power.

But Kuron and other Polish dissidents seem to have another idea. They want to see autonomous, energetic social groups grow up from the grassroots; these nonparty, nongovernmental groups would defend the interests of their members. The dissidents hope that the power of the independent social organizations will steadily increase and thus ever-larger portions of society can be reclaimed from the total control of the Communist party and the State. It is a vision reminiscent of Tocqueville and Kropotkin but colored by Poland's recent socialist history and the ruthless record of Russia in its borderlands.

Poland has a strong Catholic church and extensive private enterprise in farming (producing 80 percent of the country's food). So it is a country in which this program of detotalitarianization through social self-organization might succeed, if it can anywhere. Lech Walesa, the leader of the independent Solidarity union, has pointed out that the Catholic church is recognized by the workers, both believers and nonbelievers alike, as providing a model for "moral justice and honesty" that they all find attractive. Thus, the Poles have some experience and examples to guide them.

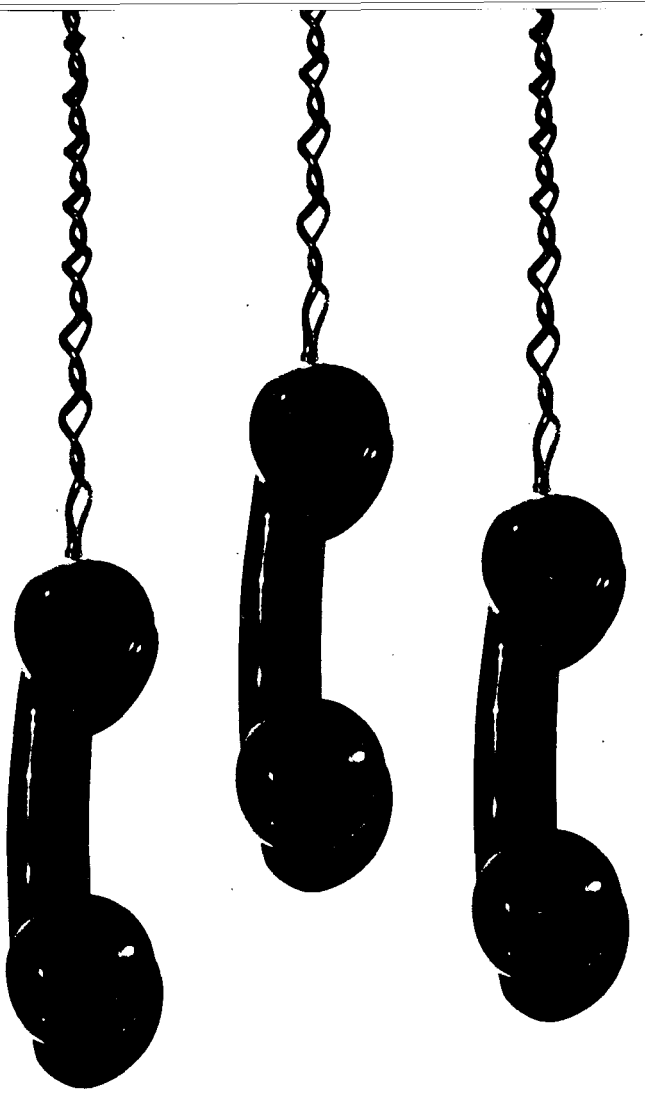
Of course, the ruling Polish Communist Party hopes that the wave of group-organizing will die out. The neighboring Communist-ruled states are fearful as well that the Polish example will prove contagious. Radio Prague has been constantly repeating the theme in its broadcasts that "antisocialist forces...operating backstage" are working "to break up the social structure of the Polish People's Republic."

Leonid Zamyatin, head of the international information department in the Soviet Communist Party, also stresses the subversive nature of the structural changes taking place in Poland. He maintains, true to type, that foreign forces "are instigating some groups coming out against People's Poland to form...some structural units, to shape structurally and legally the existing opposition to the present socialist system."

In isolated Albania, the daily newspaper of the ruling ultraleft Communist Party even predicted editorially that "the creation of 'independent, self-managing trade unions' in Poland will serve as a

(Continued on p. 51.)

"YOU PEOPLE WANNA HOLD IT DOWN? WE'VE HAD SEVERAL COMPLAINTS FROM THE PARTY GOING ON UPSTAIRS."



Dial "D" for Deregulation

The telephone monopoly is coming apart—and just about everyone stands to benefit.

BY WILLIAM J. BAHR

PICTURE THE SCENE: It's been a long, trying day, and all you need is to have to make a phone call. But there you are, punching away at the Touch-Tones® . Click—click—bzzz—"The number you have reached is not in service at this time. Please check to see..." You break the connection and try again. This time you wait...and wait...and wait; after 90 seconds you realize you've reached limbo and try a third time. Beep—click—bzzz—"This call cannot be placed on your WATS line." Angrily you slam down the receiver. "If only there were another phone company!"

If all this sounds familiar, join the club. Telephone service is deteriorating nationwide, as our monopolistic telephone utilities struggle to keep up with soaring demand and do battle with increasingly unpredictable regulators. But there's light at the end of the tunnel. Portions of the phone industry—long-distance service and terminal equipment—are being deregulated. And even the local service monopoly is under fire. New technology promises a vast array of new products and services, marrying phones with computers, television, copiers, and other devices.

How far will deregulation go? Can we really have all-out competition in telecommunications? To answer these questions we have to understand the present regulatory system and the forces contending to tear it apart.

THE TELEPHONE MONOPOLY

In the ancient history of telecommunications, Congress set social goals for much of the telephone industry with the Communications Act of 1934. Section 1 of that act was passed "for the purpose of regulating interstate and foreign commerce in communication by wire and radio so as to make available, so far as possible, to all the people of the United

States a rapid, efficient, nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges, for the purpose of the national defense, and for the purpose of promoting safety of life and property through the use of wire and radio communication...."

Universal service was the goal. Regulated monopoly was the means. To implement the congressional will, regulators of the telephone industry have, at least implicitly, relied upon first barring entry to others and then allowing the regulated monopolist (your local phone company or AT&T's Long Lines Division) to develop and implement cross-subsidies to its various divisions, charging higher than would-be competitive prices for some services in order to subsidize money-losing services.

In the long run, these policies have put a damper on technological development within the telephone industry. AT&T's service, especially, has sunk to such relative depths that it has been compared favorably only to the Army mess hall or the Post Office. To many, the Bell system has not been the solution but the problem.

The results of the 1934 Communications Act should have been expected. It was as if the Congress had neatly tucked the mostly willing telephone industry (pronounced "Ma Bell") into the freezer (with all the enticing goodies inside), closed the door, and flipped on the switch. Except for infrequent openings of the door, the telephone industry has remained locked inside—still with its goodies, it is true, but stifled and frozen.

For the past several years, however, various new industries have been raiding the ice box, leaving the door open for increasing periods of time. Ma Bell, thawing out in the warm air of competition, has not only seen her goodies disappearing at close hand but has smelled the fruits of the free market cooking on the stove in the distance. Now she wants out and is rocking the refrigerator to get what she wants: freedom from the restrictions of regulation. And some of the government officials who have been observing all this ruckus from in front of the ice box have just made a dramatic move to dismantle the door.

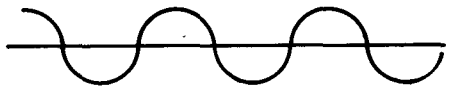
Why this change on the part of the government? Is it vision, money, good will, power, or a change in philosophy? Perhaps it is a little of each, but most importantly, it has been brought about by technological advances in a field other than telephony. Actually, those hot, savory items sitting on the stove that Ma Bell is eyeing so enviously are computers—or, more properly, profits brought home by the computer industry.

But, you ask, didn't AT&T swear off electronic data processing (EDP) in its 1956 consent decree? Yes, it did. The Justice Department required that it give up *something,* and back then AT&T didn't think the computer industry looked all that attractive or would even have anything to do with the telephone industry. But now the computer industry, as the attractive chef cooking up a storm at the stove, is said to be the most eligible marriage partner possible for Ma Bell. The prime reason this relationship is natural is the technological advance of digital switching.

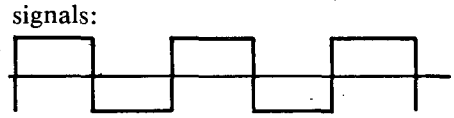
"We can't continue this administrative minuet of always asking, 'Mother, may I please introduce a new product?' "

THE COMPUTER MATCH

To understand telephony, you must first understand the human voice. Speech is a variation of frequencies. Such variation is continuous in form (analog) and can be visualized as a sine wave:



To understand computers, you must first understand that most computers are based upon a series of digital yes-no decisions, or on-off switches, that can be typified as the following distinct, two-level series of signals:



The way in which these two forms of signaling have met and joined hands in the telephone industry can be illustrated by several calls to your favorite publication, located in Santa Barbara, California. In city A, you'll pick up the telephone and dial 805-963-5993. The resulting "clicking" signals will go to your local telephone company office, where they will be deciphered by going through miles and miles of wire, tripping or spinning a number of switches, each the size of a typical light switch, located upon rack after rack of equipment. Physical contact will be made with the wire leading off in the direction of California, and you're on your way.

If you live in a large city, however, you can easily imagine that the size of the switching office system required to handle all such calls would have to be monstrous. Enter the computer... and your second call. This time when you pick up the phone and dial the number, the clicks are transformed into digital form and quickly wend their way through a computer, and you're on your way to California. The switch has been transformed from a mountain of copper wiring into a small box of computer chips, much smaller both in size and cost.

In yet a third city, not only is your dialing signal changed into digital form but, through the wonders of modern technology, so is your voice. In such form, many more conversations can be squeezed onto a wire pair, thus reducing as well the number of expensive wire pairs that are required for all conversations going on between your area and California.

But wait—now a fourth possibility opens up. With even more advances in technology, you sit in front of a funny-looking telephone, and your voice is mediately and doesn't have to wait to get to your local telephone office. The communication path is digital end-to-end. So what, you ask? Well, try plugging your own home computer into it and see what happens. Imagine this:

"Hello, Bob. I noticed it's time for the next issue of REASON. I've got my word-processing computer on line now. Should I set my printer for 68 pages? OK, it's printing. Looks like another great investigative report this issue. Thanks a lot. Call you again next month. Good-bye." (This pic-

ture is not science fiction; *Better Homes & Gardens* and *Robotics Age* can be sent via home computers. Now you can see how it's only natural that, once Ma Bell gets involved in computers for switching, she would also want to get involved in computers for word and data processing.

COMPETITION A'COOKING

Back to the kitchen. While Ma Bell has been locked up in her freezer, she has not been the major force in the development of telephone switching. This development is the child of the free-market "interconnect" industry. Through case-by-case decisions over the last dozen years, the government has allowed entrepreneurs to take back from Ma Bell the right to produce various goods and services. The most often cited of these allowances is the Federal Communications Commission's Carterfone decision of 1968. For the first time a manufacturer was allowed to "interconnect" his own device to a Bell telephone.

Since then, the government has inexorably been led down a logical path to allow bigger and better privately manufactured devices to be added to or substituted for the Bell telephone terminal instrument. Examples of these devices are such small items as the Stromberg-Carlson telephone you can buy at Ward's for about $20.00 or such large items as the Rockwell-Collins automatic call distributor that all major airlines have bought for close to a million dollars each to handle their complex flight reservations requirements.

Presently, what may concern Ma Bell the most is the developing market for digital private automatic exchanges (PABXs). Here, private firms are installing complete telephone systems in business buildings, saving most corporations thousands and thousands of dollars over what they would have to pay Ma Bell for comparable internal telephone calls. Needless to say, AT&T is losing millions in revenues from such competition, which provides customers not only better prices but, in most cases, more desired product features and better service.

It could be said that Bell could live with such an inconvenience, since, after all, it gets most of its revenues from long-haul transmission (the wire that got your call to California). But enter the competing long-haul transmission companies such as MCI and SPC, developers of Execunet and Sprint, respectively (see "Slash Your Phone Bill, REASON, Mar. 1980). Successful as they have been, for the longest time these competitors were held at bay by AT&T's causing them problems when they wanted to hook up their wires to your local telephone switching office. In a recent antitrust suit, however, MCI was awarded $1.8 billion in treble damages for injury AT&T is alleged to have caused it by its previous illegal, anticompetitive activities. MCI and other common carriers are now expected to have a much easier time expanding their services.

Those hot, savory items sitting on the stove that Ma Bell is eyeing so enviously are computers.

Also enter the satellite companies. A number of well-financed firms, with names like IBM, Aetna Life Insurance, Comsat, Xerox, GTE, and the list goes on, are forming consortia to place satellites in orbit. These will retransmit both voice and data signals sent to them from the rooftops of firms whose antennas are connected to their own PABXs, thus bypassing AT&T's system altogether. It would seem that, for all they could care, Ma Bell could sit in her ice box and freeze. But instituting a replacement system is still in its initial phases and looks to cost billions. Wouldn't it be nice to let Ma Bell out of the ice box if only she would cooperate?

In fact, a closer look reveals that the rocking of the refrigerator is due not only to Ma Bell trying to get out but to *some* competitors trying to help her out in just the right, profitable way. If Ma Bell can thaw out, a warm relationship could also be established with the computer industry, resulting in what just might be the birth of a new industrial revolution.

THE RACE TO DEREGULATE

Just how to deregulate AT&T is no simple matter. Would that complete deregulation could happen overnight; however, obstacles abound. What about all the past promises that had been made to AT&T that it could recapture a reasonable profit as a regulated entity—surely a prime reason for its installing telephone exchanges in normally unprofitable, remote little towns? What about all the depreciation on AT&T's equipment that it thought it could amortize over a useful life of 30 years? Deregulation would make it obsolete almost instantly.

Such are only a small sample of the questions that have been considered over the past several years by the House, the Senate, the FCC, the Justice Department, and the courts. Each of these entities had in one way or another been involved in the legalistic, case-by-case series of deregulatory steps previously mentioned. Over the past year, each has also been in a race to radically deregulate the telephone industry. Rather than being a simple contest, however, the race has looked more like a multiple pushball race, with a horde of lobbyists (for example, the Department of Defense, the interconnect industry, IBM, the independent telephone companies, trade associations, outright Bell opponents, and groups concerned about the influx of foreign-controlled multinational telephone companies ganged up on each contender, pushing every which way toward the "right" direction.

What has resulted are various plans for phased deregulation of the telephone industry, most of which provide for the creation of a single unregulated subsidiary for AT&T. Of last session's slightly different House and Senate bills regarding deregulation, Henry Geller, assistant secretary of Commerce and head of the National Telecommunications and Information Administration (NTIA), said on June 23, 1980: "These are both

good bills, although we like the House one better....We need deregulation. We can't continue this administrative minuet of always asking, 'Mother, may I please introduce a new product?' "

Also involved as a dark horse in the deregulation race is the Department of Justice, which has Bell in court on antitrust charges with the intention of breaking it up into smaller operating units to "enhance competition." Favoring this attempt, William B. Saxbe, spokesman for the North American Telephone Association (NATA), warned of problems with phased deregulation such as found in the House bill. Specifically, he was concerned with the fact that AT&T may use the billions in funds it "gouges" from customers in regulated markets (here meaning your telephone hook-up to your local telephone exchange) to unfairly support its activities in unregulated markets. Remember that AT&T has annual revenues close to $40 billion, with total assets exceeding $100 billion and, as such, is not only a dominant market force but potentially the most influential, feared competitor in telecommunications or any related field.

Saxbe said in a recent interview, "If deregulation is desirable, the telephone companies, which have dominant monopoly power within their exchanges, should not be entirely freed of regulation until marketplace conditions exist....And this proposed legislation does not provide safeguards to assure anyone that it can happen that way. Leaving such matters to the 'telephone fairy' is both naive and irresponsible." One must remember, however, that Mr. Saxbe was the attorney general in 1974 and the person who initiated the latest antitrust action against AT&T. So it is not surprising that, although now acting as spokesman for NATA, he would argue that any deviation from the Department of Justice plans for AT&T would create a competitive subsidiary that would be a clone of a giant monopoly from the moment it goes into business.

The FCC plan, which differs somewhat from the two congressional bills, also contains "safeguards" against cross-subsidization that are judged by some to be inadequate.

What is to prevent "Baby Bell" from growing up with a nasty temper and a predatory disposition?

Much of the discussion about this and the congressional bills centers around the gorilla theory: Where does an 800-pound gorilla sleep? Anywhere it wants. In other words, what is to prevent the unregulated portion of the Bell System, christened by some as "Baby Bell," from growing up with a nasty temper and a predatory disposition?

Which of the previously mentioned contenders was going to win? Many observers felt that putting odds on any one in particular was beyond the calculation of Jimmy the Greek. Most observers, however, also believed that some quick action was needed, not only for their own particular reasons, but for the common fear that, without some action, AT&T—given its needs and the force of technology—would drag more and more of the free market for computers, data processing, and related goods and services under the umbrella of regulation.

THE FCC TAKES THE LEAD

Who won the race? In its action in April 1980, the FCC won the race or, as Congressman Lionel Van Deerlin put it, "hit a home run."

In speaking of the FCC action, labeled the "Second Computer Inquiry Decision," FCC Chairman Charles D. Ferris claimed that the decision "removed the barricades from the door to the information age. The supply of communications products and services will be limited only by the ingenuity of businessmen and scientists. Government will no longer be a barrier that prevents or delays the introduction of innovations in technology." And, he said, difficult as it may be to achieve a new kind of environment and a smooth transition, he had absolutely no doubt that it must be accomplished, because information processing and telecommunications functions share one common set of technologies; operate on one kind of commodity—information; and have one common set of user benefits—improved productivity, enhanced ability to manage complexity, and, in many ways, ability to improve the quality of life of the individual.

Howard Anderson of the Yankee Group (telecommunications consultants) has summarized the FCC's ruling somewhat as follows:

1. All carrier-provided network services must be defined either as "Basic" or "Enhanced." "Basic" is defined as simple voice or data transmission capacity. "Enhanced" is to be defined as the *use* of basic services (individually or in combination), supplemented by some added value, such as computer or communications-processing applications. *Enhanced services* are to be deregulated; *basic services* will be subject to regulation.
2. All carrier-provided customer-premise equipment must be "unbundled" (separately charged) from carriers' basic services prices and must be made available for purchase (at customers' option) by March 1, 1982. Customer-premise equipment may be offered through "enhanced services" subsidiaries.
3. All carrier-provided, customer-premise equipment (PABX's telephones, modems) is to be deregulated; technological capabilities will no longer serve as a distinction between customer-premise equipment...which can be offered by *any vendor* (e.g., Teletype can now offer EDP capability in its terminals). AT&T and GTE must market, install, and maintain any and all customer-premise equipment *through a separate subsidiary*.
4. The current computer rules requiring maximum separation between a carrier's regulated communications services and unregulated data processing services are to be eliminated,

with the exception of AT&T and GTE.
5. AT&T is *not* barred by the 1956 Consent Decree from providing enhanced services or non-tariffed customer-premise equipment.

THE PRIZES

The impact of the Second Computer Inquiry decision is already being felt in both the computer and telephone industries. In the computer industry, IBM stands very much to gain as a result of the decision. AT&T already buys IBM 3270-compatible intelligent terminals. These have the potential to be very powerful small business computers, which AT&T could very easily market through its business unregulated subsidiary ("Baby Bell") for use in the integrated electronic office of the future. (It is presumed that Bell itself will not go into head-to-head competition with IBM by building mainframe computers but will concentrate on developing smaller computer equipment that it can sell at its phone centers, much in the manner of Radio Shack.)

"You can be sure," says Steven Chrust, a research analyst with the Sanford C. Bernstein Co., "that AT&T will be there offering everything you need....The only limitation is the imagination of the guy who writes the software." And, John Gantz, director of publications for International Data, a market research firm for the information-processing industry, says that eventually the ruling will create more competition in "niche-type services"—special areas too small for the giant but well suited for a smaller company to exploit. Gantz maintains that deregulation will help everyone in the *end.*

On the other hand, it is the *meantime* that concerns Datapoint. Datapoint is a computer company that is already concentrating on providing "office of the future" telecommunications equipment, and it expects to be hurt, so much so that it has instigated the formation of a legislative lobbying group—ISCAR (Industry Study of Communications Act Rewrite)—to constrain Bell. "With a monopoly such as AT&T poised to enter our markets," said Harold O'Kelley, president of Datapoint, "the thing that worries us is that, as entrepreneurs, we all know how competition and the free market works. [Datapoint distributed William Simon's *A Time for Truth* to its stockholders.] Unleashing AT&T to enter our markets must be done on a fair and equitable basis without forcing every Bell telephone user in the land to finance 'Baby Bell's' R&D, factories, marketing, servicing and money sources....Competition is a tough game, and I don't think a monopoly could be expected to play it fairly. That's why it was regulated in the first place."

With the damn-the-torpedoes, full-speed-ahead attitude of Bell and its competitors, the telephone will never again be quite the same.

In the telephone industry, perhaps the greatest impact of the decision is a state of confusion. No one knows just exactly what will happen. On the one hand, AT&T has just been unfettered from years of regulation and can be expected to put up quite a fight with its competitors. Its inventing geniuses at Bell Labs can dream up new products with much greater certainty than previously that the legal staff at top-management levels will not be so worried about antitrust action or that the financial staff will be concerned that older equipment already in use must be properly depreciated before new equipment can be introduced. As a marketing arm, Baby Bell can pick and choose just exactly which products it wants to sell. If it doesn't like what Bell's Western Electric division is manufacturing, it can purchase from manufacturers elsewhere, with the result that Bell can shake off many of its previous problems stemming from "vertical integration."

On the other hand, AT&T is at a disadvantage, because it has to offer its long-haul transmission facilities to its competitors at the same price it charges Baby Bell. Thus, new competitors of Bell will be on the same footing as its offspring, and current Bell competitors will be free to continue enjoying the advantage of having developed their own long-haul transmission facilities.

In addition, Bell has no long history of competing in a free market. Unlike the top executives of the interconnect telephone and data-processing industries, who tend to rise through the ranks of sales and marketing, AT&T's managers, from Chairman Charles L. Brown on down, have traditionally had engineering and technical backgrounds. It is apparent that Bell will have to purchase top-level *marketing* expertise.

DEBATING THE RESULTS

What do the lawyers have to say about the winner of the race to deregulate? FCC Commissioner Robert E. Lee sounded a note of uncertainty when he anticipated a flurry of litigation over the commission's decision. He rhetorically asked and responded: "Who's going to sue us? Everybody." To which Philip Verveer, Common Carrier Bureau chief replied, "I think that is a fair assumption."

Victor Block of *Telephony* said, "What is clear at this time is that the decision no doubt will be tested in the courts; and that it will affect the effort of Congress to amend the Communications Act; that it will interplay with the Dept. of Justice (DOJ) antitrust suit against, and consent decree with, the American Telephone and Telegraph Co. (AT&T)."

John M. Lothschuetz, vice-president and general counsel for United Telecommunications, said:

> *Based on what we've seen and heard so far, the commission certainly has addressed many of the problems the industry has. The biggest problem as I see it is the right to reimpose regulation. Some people in the industry feel [the FCC's decision] is fine. This is what we've been shooting for. But the com-*

(Continued on p. 52.)

By Robert James Lee

WHY THE CONSERVATIVES WILL FAIL, IF THEY FAIL

A Reply to George Will

A recent instance of George F. Will's syndicated column, "Conservatism Comes of Age," unwittingly brings into sharp focus the contradictions within the conservative movement that are likely to lead to its collapse in the next four years—much like the liberals' collapse in the past four. Will speaks of a maturing conservatism, which recognizes that there is nothing wrong with big and strong government. Indeed, Will contends, "Real conservatism requires strong government."

Will's conservatism also holds that there is *too much* freedom in American society, that license threatens to replace "durable disciplined liberty." Pornographers are *too* free. And young men not being drafted are *too* free.

POLITICAL WATERSHED?

This conservative vision, however, is not the mandate of November 4. The destruction of establishment liberals reflected an overwhelming concern with the economy: two-thirds of those polled by the *Los Angeles Times* after the election cited the economy as the most important issue. What people voted for were budget cuts, tax-rate reductions, control of the regulatory leviathan, and monetary restraint.

They did not vote for a more interventionist foreign policy, either. Carter' policies may have failed, but the greatest barrier to Reagan's victory throughout the campaign was the "warmonger" issue. Only after Reagan's reassuring performance in the last debate did the foreign policy issues finally fade.

Nor did they vote for the new right's social authoritarianism. Polls have consistently found significant public uneasiness about Jerry Falwell and his allies. David Broder of the *Washington Post* recently reported that Americans believe by a three-to-two margin, that social permissiveness is evidence of "greater social tolerance" and not "moral decay." November 4 was no mandate for social repression.

All three of these issue areas must be grappled with by the triumphant Republicans. They were elected with a broad consensus on the economy; if they implement that consensus by deregulating business, cutting spending and taxes, and controlling monetary growth, they may well turn the 1980 election into a political watershed.

But if, as is likely based on past experience, they increase intervention abroad and social repression at home, they will forfeit their opportunity. For over the years, conservatives have rhetorically supported economic freedom but actively supported a more intrusive and powerful government. And they have lost election after election.

Indeed, it is conservatives who, during the 1960s and 1970s, drove an

(Continued on p. 51.)

Illustration by Robert Krause

A California economist talks about his curve, his critics, his case, and his conversion.

Melinda Cogen

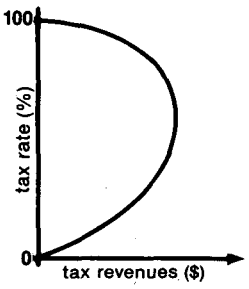
REASON INTERVIEW:

ARTHUR LAFFER

Economists are easy to identify. They're introverts, having learned from bitter experience not to let out a peep about "opportunity costs" at cocktail parties; they rarely utter a syllable that didn't first appear on the print-out of an electronic computer in the economists' native tongue of matrix algebra; they are exceptionally eager to neutralize anything of substance they might say by instantly offering you what might be true "on the other hand"—which is why Harry Truman so lusted for a "one-armed economist." It is little wonder, then, that most people are surprised to meet Arthur Laffer—economist *Arthur Laffer.*

While possessing all the academic tools attested to by a Ph.D. from Stanford University (and the earning of tenure on the University of Chicago faculty at the age of 28), Laffer clearly bounces to a different drummer. He knows what the computers say—but he speaks to everyday political issues and the man-in-the-street. He is not afraid to stake out a clear policy prescription. The man rarely hedges his bets.

Dr. Laffer's brand-name logo has become the Laffer curve, an elementary graphical exposition first formally detailed on a Washington, D.C., cocktail napkin. The figure shows the relationship between two variables: the tax rate and the total taxes collected (government revenues). If the tax rate is zero, for example, tax revenues are likewise zero; but, Laffer further points out, if the tax rate were to be raised to 100 percent, government revenues would remain at zero—because no one works for nothing. In between these two extremes, tax rates will yield some positive level of revenue to the government, but the key point Laffer makes is this: Raising rates does not always raise tax dollars. In other words, making the tax burden more onerous may give workers and investors such a strong signal to stop producing that the diminished level of output that results may well yield the government even less money—in spite of the fact that it receives a larger percentage.



In the overtaxed, overburdened America of 1981, a lot of this simple thinking is making a lot of sense to people who may not be so simple. Yet its greatest import may be its impact on those

I use the Laffer curve to make a straightforward point which is obvious: you can overprice your product and lose money; you can underprice your product and lose money.

who are: the politicians. Laffer talks to them*—or more precisely, with them—in plain, appealing language. And since his is the talk of tax cuts,* REASON *thought it would be valuable to send economist and* REASON *columnist Thomas Hazlett to talk with the controversial Art Laffer on the campus of the University of Southern California.*

REASON: Let's talk about the Laffer curve. Why do I always see the word *optimum* next to the point that maximizes government revenues?

LAFFER: That's because whoever is writing about it has made a mistake. What they're really talking about is a profit curve, as opposed to a revenue curve, and it's easy to confuse those two when you're not an economist. If it *is* a profit curve, then that point *is* the optimum. If it is a revenue curve, however, it's clearly not the optimum.

REASON: Where is the optimum?

LAFFER: I don't know—but what I do know is that it is clearly below that point. At that point, you can maximize government revenues but everyone knows that is clearly excessive taxation.

The thing is, it's a pedagogic device that allows one to explain the point to a congressman or senator very quickly and get them to understand the point. When the Treasury says that we've raised tax rates by 10 percent and therefore we are going to get 10 percent more revenue, that's nonsense. We know we're going to get less than that 10 percent. Now, whether we increase revenues at all or actually lower revenues from the starting point, that requires empirical estimate. The whole point of the curve is to illustrate this and to make it so that, when the congressmen get together to discuss tax legislation, they do not foolishly make the mistake that every time you raise taxes you collect more revenue and every time you lower them you collect less. This is not true. What you want to do is look at the constellation of tax rates and then try to get the *optimal* tax structure, given revenues. Then the optimal spending structure. Then the optimal level of taxation and spending. I use the Laffer curve to make a straightforward point which is obvious in another context: you can overprice your product and lose money because the quantity you sell falls off; and you can underprice your product and lose money because the increase in volume doesn't make up for the decline in revenues. What you want to understand is that taxation and revenues are not related in a one-to-one fashion.

REASON: Milton Friedman has branded the Kemp-Roth tax-cut bill—and you are the moving force behind it—as a free lunch, the Kemp-Roth free lunch. Do you think that's the right way to view it?

LAFFER: Then it's a perfect example of a case in which we should all support a free lunch! If you can lower tax rates without lowering revenues, I know *no one* in his right mind would say you shouldn't do it. I mean, if you provide more private incentives and you expand the private sector without hurting the government sector, why shouldn't you? The question then is: Is it conceivable that that's true? And I think the answer is clearly yes. Milton's written a number of pieces where *he* shows free lunches, where something he's proposing does nothing but benefit every group. In one of his *Newsweek* columns he talked about cutting the highest tax rate to 25 percent, and you'd clearly get more revenues, he said, and you would make individuals work harder. Fine. I love it. I think that's a better proposal probably than Kemp-Roth.

REASON: The first place I heard about a Laffer curve was in a Milton Friedman column several years ago.

LAFFER: A column about capital gains taxes, where he argued for the free lunch. I think he was right that time, and I think he's right now. I think to tag it a free lunch and therefore make fun of it is nonsense.

REASON: Now, what problems do you have with Margaret Thatcher?

LAFFER: She raised taxes when she came into office after promising to lower them. And I wrote a piece in the *Wall Street Journal* on Margaret Thatcher's tax increase, and I was disinvited from a lecture tour of Britain on that day. I'd spent a lot of time with her and several others in Great Britain, but they raised taxes. And you look at the results. Their deficit is not disappearing, their interest rates have not fallen, their inflation rates have gone up, and their unemployment rate has gone way up. I think it's a classic case of raising taxes and lowering revenues. And causing inflation.

REASON: If we put through a Kemp-Roth bill and the

I think Milton Friedman has backed Kemp-Roth if I read his statements correctly. I think Alan Greenspan does. I think George Shultz does.

deficit actually got bigger, then inflation would presumably increase...

LAFFER: Why?

REASON: Well, because the Federal Reserve is going to cover that deficit by increasing the supply of money.

LAFFER: Well, wait, let's take a look. What's the relationship between the deficit and inflation?

REASON: Well, what is it?

LAFFER: No direct relationship there. If we run a larger deficit, let's say, there's no reason why we *have* to monetize it.

REASON: The common view is that if we don't monetize it, then there's a depression.

LAFFER: Why?

REASON: Because there's no capital for the private capital market.

LAFFER: Oh, but the whole question is incentives. You're the Fed: would you tend to have easier, or looser, monetary policies if the economy is declining or increasing?

REASON: I'd run looser if it's declining.

LAFFER: Yes. Well, now, does Kemp-Roth increase incentives, increase output employment, even if it doesn't pay for itself?

REASON: Yes.

LAFFER: Okay, then in a growing economy—if Kemp-Roth has passed, the economy would be growing faster than it would otherwise—the Fed will have less pressure on it to run loose money. So I would argue that really by cutting tax rates, even if you do run a larger deficit—and I'm not at all sure that you will—but even if you do, you'll have less pressure on the Fed to monetize that debt.

REASON: Well, why doesn't Friedman like this?

LAFFER: I don't know. That's for Milton to answer, not me. I think Milton Friedman has backed Kemp-Roth if I read his statements correctly. I think Alan Greenspan does, I think George Shultz does. I think these all do. And I think that what we mean to say is that there are a lot of things other than Kemp-Roth that are important, and one does not look at one policy in a vacuum. I think Milton would like to cut government spending. I would too. But the easiest way to cut government spending, frankly, is to have a growing economy, because when you cut taxes and expand the private sector, you reduce the problems that are the government's bailiwick—unemployment, most obviously. If you cut in half the number of people unemployed, you're going to reduce unemployment compensation. Halve the number of people on welfare, and you're going to reduce the amount of welfare spending.

REASON: But you don't believe, then, that government expenditures are necessarily related to government revenue, that, if revenue is going up, government is automatically going to spend more?

LAFFER: No, I don't think that.

REASON: You don't think the politicians feel a constraint?

LAFFER: But now you're in a different area. I'm not a political scientist. But I see no reason why they can't use increasing net revenues for reducing taxes even further and further and further, nor why there's any inextricable link, why you have to starve government in order to get it to cut taxes.

REASON: What kind of actors are these bureaucrats? Don't they want to maximize their own incomes?

LAFFER: They're like you and me. They're American citizens, born and raised in the same...

REASON: If they're like me, why wouldn't they want to increase their own standard of living?

LAFFER: Well, they may well want to produce a job in the private sector and quit. A lot of my students go to work for government but would rather work in booming little businesses—which aren't around. One of the best ways of reducing government is by making the private more attractive, in my view.

REASON: So you have this model of government bureaucrats held hostage by a private economy that is not expanding rapidly enough for them, and as soon as it does, they'll gladly leave the government trough?

LAFFER: Well, I guess I see it a little bit differently. I mean, I don't like the concept of hostages. But the government is, for many of my students now, the best employer. It gives them the best jobs. If you look at the stock market over the last 10 or 15 years, you don't make a lot of money in the private sector these days, and you get all sorts of red tape and hassles. In the government ,

Communist countries don't tax at inordinately high rates and pay people for being unemployed. *We* are the Fabians. *We* take according to ability and give according to need.

there's some pretty interesting jobs—especially for Ph.D. economists. Now, the question is, If we had the private sector growing like mad, would they be the same way they are? I don't think so. It's not that they're hostages; they're just choosing among alternatives, and they take the preferable alternative. Do you see what I mean? I don't view bureaucrats as any different from you and me.

REASON: Well, neither do I. That's why I'm saying...

LAFFER: They're wonderful people, and they try to be efficient. They don't want to waste, they don't want to squander, they don't want to destroy the country, and they aren't after some sort of maximizing for the bureaucracy. They're looking at their own private, personal incentives. If they're given free money, sure they're going to spend it if they can. But they don't do it to hurt the people.

REASON: But for any individual bureaucrat to cut $100,000 out of his one budget is not going to spur the economy such that he can get a job out in the private sector.

LAFFER: That's true.

REASON: So what are the particular incentives that are going to make them want to do that?

LAFFER: I guess from their own standpoint what they do is they look at the funds as being costless and they look at the spending as being revenue-gaining to them personally. And of course you want to change the structure of this. I mean, you want to have a good budget. We all agree that there's a lot of waste in government spending—because of these incentives.

REASON: So the case that you're making for government workers is dependent upon a very large change in the institutional structure of government.

LAFFER: No, not at all. I don't think that the pressures on any specific agency or department or guy down there on the line changes much whether the gross revenues are up or down. So why expect a noticeable change if more revenues come in?

REASON: Well, every department is certainly going to fight to get that money.

LAFFER: Well, aren't they now? Even though it doesn't exist, they're spending money they don't have. But what you're saying is that somehow the pressures on them to control their spending will diminish if revenues are larger. I don't believe that for a second.

REASON: You think there is no correlation between revenues and expenditures?

LAFFER: Yes, there is, of course—a gross correlation, but nothing like you're talking about, not in a micro sense.

REASON: I'm going to lock you in a room with James Buchanan.

LAFFER: Please! But, you know, you're talking about societies and States when you're talking about adding a dollar's worth of revenue where there's a partial effect on spending.

REASON: No. I'm talking about adding billions.

LAFFER: How many billions?

REASON: At the federal level?—$50, $60 billion.

LAFFER: Right, $50 or $60 billion. I don't think there will be any pressures on the budget side, on the spending side. Not if you do correct accounting systems.

REASON: So, if all of a sudden the government were to find out it had $50 billion more in its bank account than it thought it had, the budget would not be affected at all?

LAFFER: I believe that's correct, yes. That's all other economic conditions held constant now. But, you know, if all of a sudden they found that their debt bonds were bouncing, that would change things. There really are ways of changing spending by the financing side—but not by changing the *composition* of that financing side. Do you know what the deficit is if you take a full budget picture of off-budget items, of underfunding of interest-subsidized loans, of the increases in unfunded liabilities in the federal program? You've got a deficit of $400 or $500 billion. And you're telling me that $50 billion is going to change that! Now, if there were a change in the resource base of America, yes. But I think the government really looks more at the resource base of the taxed entity than at the amount that they have collected from it.

REASON: They look at GNP rather than taxes...

LAFFER: Well, whatever the appropriate number is, yes. But also what they look at is the path, and they see the decline in real production or the lack of growth in real production. And that starts putting pressure on them.

REASON: So this is why they're looking at tax cuts now.

Our Statue of Liberty says, Give us your poor, your disenfranchised and huddling masses; we'll make them rich. But now we say, You keep your poor and give us your rich. Outrageous!

LAFFER: I think so.
REASON: Now, there's another question. Progressive tax rates, economists agree, are a very big impediment to economic growth. From the government's standpoint, the optimal tax structure—to get the maximum revenue at the minimum cost—would be regressive tax rates.
LAFFER: Sure.
REASON: But we see in the real world progressive tax rates everywhere.
LAFFER: That's because they do believe that there is a relationship between the incidence of a tax and its burden. By taxing the rich and by giving to the poor, they somehow believe you make the rich worse off and the poor better off, which is nonsense. Any casual glance at New York City can tell you that—or Great Britain. What you see there and in New York City, of course, is the most progressive taxes and the most generous welfare variables. And if anyone thinks the poor are well off in New York City, they just don't know New York City. The same thing is true with regard to Great Britain. Highly progressive taxes and very generous welfare income-maintenance programs, and the poor are worse and worse off. And compare Jamaica with Bermuda. Which one does better by the poor? Jamaica, with high progressive taxes and big welfare spending programs, or Bermuda, with no income tax at all? Jamaica has poverty, despair, unemployment, bankruptcy. Bermuda—its taxi cab drivers send their kids to finishing school in Switzerland. The best way to help the poor is to create an environment where the poor can become well-to-do.

I would be willing to experience a large deficit to reduce unemployment or inflation. As an economist, it's a side issue whether or not we make up that revenue.

REASON: What about Communist countries, which have a tax structure different from this country's? How does that compare?
LAFFER: Oh, in many of the Communist countries they don't go after successful people. They don't tax at inordinately high rates. In fact, I don't think that they tax at higher rates if you make more, and they don't pay people for being unemployed. They don't believe in taking from each according to his ability and giving to each according to his need. I mean, in Cuba if a guy decides to quit working in a sugar cane field and sit on the beaches outside of Havana, what type of welfare benefits do you think he gets? Yeah, right, you giggle—but the point of it is, what type of welfare benefits do they get here? *We* are the Fabians. *We* take according to ability and give according to needs as we perceive them. And of course, what we do is we destroy the capability of the society to produce, and we increase enormously the dependence of people on the system.

These countries have got a lot of real serious problems in economics, but they are not in their tax structures. They have to do with the ownership of capital. They believe that the State can run decisions in investment, which I think is wrong. It cannot. But they have all sorts of other political motivation behind their spending programs—their inordinate fetish with the military, where you have all the technological developments going into military and not into consumer goods, and da da da da. These are not being run efficiently. But I don't think you can really knock the tax structure in the Soviet Union, given the revenues they're taking. What are the estimates of Soviet GNP? Substantially less than the United States, isn't it?
REASON: About half of ours.
LAFFER: Yes, and what's their defense spending? About 60 percent greater than ours. Imagine, that's a threefold increase in our defense spending relative to GNP. How many people think that that would really have as little effect as it has in the Soviet Union? In other words, given the enormous problems of defense spending they have relative to their output, they seem to be handling it quite well relative to how we handle it. People claim that defense spending is destroying our economy, unbalancing the budget. *That's* not what's doing it.
REASON: Well, now, what's your view of people like Lester Thurow, people who might be the American Marxists? You tend to be identified as a free-market classical economist...
LAFFER: I am.
REASON: But your view of Lester Thurow is that you have a lot more to agree on than disagree on.
LAFFER: I do not disagree with his analytic framework terribly. I disagree with his objectives, and I disagree with a lot of his empirical conclusions, if you will, in the system. In other words, to oversimplify Les Thurow, I don't think that people save because their incomes are high per se; I think people save because they make an after-tax rate of return on their savings. I don't think people work to get to pay taxes; I think people work to get what they can *after* taxes. The Keynesian and monetarist notion, that somehow people work because there is a job, I think is silly. I think people work because they get paid after taxes, and therefore this aggregate demand nonsense is just that. So Lester Thurow is much more along my line of thinking.

I just don't agree with his prescriptions and his recommendations concerning the ownership of the means of production. I think they should be held by private individuals, and the more privatized the property rights are, the better off we are, much along the lines of economists at UCLA and the University of Chicago in their perceptions of property rights. The work of Harold Demsetz I admire enormously. In that area I'm very much of a private-ownership person—that through individual action you basically, in general, will come to the public good. And Lester Thurow does not believe that at all. He believes much more in a *dirigisme*, that government intervention is the way to get to the public good, that we have to rein in the animal spirits of individuals and their basest aggressive tendencies and transform them into lovely little butterflies floating around from flower to flower doing the public good, as opposed to what they

would be doing late at night. I think profit-hungry individuals create public good and that our real problem is that the government has imposed an enormous amount of wrong signals, the profit-hungry people today go into a Newport Beach condominium or go into tax dodges in Bermuda, as opposed to producing goods and services that feed our poor and our unemployed and our deprived. And if, in fact, the government got out, then we would eliminate poverty shortly the way we did before. We *were* the place that took the poor. We're now the place that precludes the poor. We try to prohibit Mexicans from coming into this country. Our Statue of Liberty says, Give us your poor, your disenfranchised and huddling masses; we'll make them rich. But now we say, You keep your poor and give us your rich—which is outrageous. We *were* the place where the poor could do it. We are now the place where the poor are prohibited from making it, with an income tax that basically stopped the poor from becoming well-to-do.

REASON: Would you be in favor of outright abolition of the income tax?

LAFFER: I don't know. It depends on what you put instead.

REASON: What about a value added tax?

LAFFER: Yes, I would much prefer to see a value added tax. I think the proposal of Russell Long is inordinately sensible—that you take the income tax and you lower it more than you increase the value added tax. I think the federal government should try its best to use the tax structure to raise revenues, not to redistribute income. That's a fundamental error, that they perceive that they can in fact change the distribution of income. I don't think they can.

REASON: Why not?

LAFFER: I just basically believe that the burden of total taxation is independent of the incidence of that taxation. And it's true with spending programs, too. Paying people to be poor doesn't mean that you make them better off. People respond to incentives. If you pay people for being poor, you cause them not to become well-to-do, and if you look at the effective tax rates in the inner city, it's enormously high. I did a little study here in Los Angeles of $300-$800 a month increases in income for a family of four—two adults, one wage earner. The family is literally worse off the more it makes because it loses so many welfare programs *plus* it pays income tax at a relatively high rate. [See "How to Perpetuate Poverty," by Bruce Bartlett, REASON, May 1980—Eds.] Outrageous. There are direct disincentives for people to improve their well-being by increasing their income.

REASON: Well, this is interesting because Lester Thurow's book, *The Zero-Sum Society*, offers basically a laissez-faire sort of socialism. He wants to deregulate, throw out environmental controls, the Department of Energy, rent controls, all that, and simply be left with an Internal Revenue Service that collects money and then redistributes it at the end, so that the only thing left of government would be this redistribution through the income tax.

LAFFER: Well, he and I agree very, very far along. I do not disagree about the first part, but that's an amazing thing. Can you imagine finding other eastern liberal economists who do agree with all those things? No. Basically, the point is he starts from the same general framework and model that I do. I just don't like his answers.

REASON: What are some of the major criticisms you have of the traditional neoclassical establishment economists?

LAFFER: No, no, let's say not neoclassical. They're not at all. In fact, they're demand-side, they're single-entry bookkeepers. They are partial-equilibrium economists who believe that people work because there's a job, not because they get paid, and they therefore have done everything without focusing on the substitution effects of fiscal policy. The substitution effects of fiscal policy—as anyone knows who has read Leon Walrus or read the first 110 pages of John Hicks's *Value and Capital*—substitution effects accumulate, and the income effects net to zero when your transfers match the taxes, and you've got to be very careful about how to handle this.

REASON: In *layman's* terms, what is your major disagreement with their conclusions?

When our Keynesian policies failed, economists back at the university said, "Ah, well, they didn't really do a wage-and-price freeze like we would have done it." Silly, silly, silly.

LAFFER: Government spending, increases in transfer payments, reduce output. Increases in the quantity of money, with our progressive tax scheme, reduce output. Devaluations of the currency reduce output. But they believe that increases in government spending, transfer payments, increase output. They believe that increasing the money supply increases output. They believe that devaluation of the currency increases output. I think they not only are wrong; they've got the wrong side.

REASON: Well, you look at it from the supply side.

LAFFER: Both supply and demand, but, yes, I focus on incentives to work. And they focus on incentives to buy.

REASON: How do you plan to test the Laffer curve? Is this being done now?

LAFFER: It's being done daily. It has been for centuries.

REASON: Then give us some of the results.

LAFFER: Well, you know, you could take the case of New York City. Do you think for a moment we could balance the inner city's budget by raising its tax rate and driving the last two businesses out? Well, which cities are running surpluses and which ones are running deficits? I ask you. Look, which countries?

REASON: Tell us.

LAFFER: Well, look at Britain. Look at the United States. Compare it with Germany and Japan, which have cut tax rates. I gave you Bermuda and Jamaica as examples.

REASON: And are other economists testing out the Laffer curve?

LAFFER: Yes, at Stanford and Harvard and the National Bureau of Economic Research. They are doing it all over the place, and they're getting better and better results. In fact, I've never tested—and I don't know if I believe it or not—but I've never done the work to show that the Laffer curve works in the short run. Who has? Marty Feldstein argued it with regard to the capital gains tax, said it more than paid for itself right away. Mike Boskin has argued it. Mike Evans has argued it—these guys are the ones who are spouting the Laffer curve in the extreme form. I've been quite moderate in my responses. I've said to economists that I think that Kemp-Roth would pay for itself in several years. I said that Prop. 13 would within 10 years pay for itself. I've never made any more extreme statements than that. I think they're good, good proposals, and anyone who wants to balance the budget on the backs of the poor and the unemployed is really foolish. Teddy Kennedy put it correctly. He said the only way to balance the budget is to have full employment with price stability, and he's right. But he's wrong on how you get there.

REASON: But aren't we on a dangerous road here? Here Howard Jarvis went out, and in the simplest fashion possible, he put the question as the people versus the politicians and he won overwhelmingly. But if we start talking in terms of the empirical validity of where we are on the Laffer curve right now, isn't that going to change the whole argument?

LAFFER: It does to some people, sure. But, see, you're presuming that the only thing that is relevant is the revenues. I don't. Let's imagine we're going to have a large deficit forever but less people unemployed. I personally would be willing to experience a large deficit to reduce unemployment—if that were the true choice. Let's imagine that we're going to have a large deficit and lower inflation. I'd rather have lower inflation with a larger deficit than I would a smaller deficit and larger inflation. My belief. And these are the relevant choices, in my view. From the standpoint of my training as an economist, it's a side issue whether or not we make up that revenue.

REASON: Where did you do your graduate work?

LAFFER: At Stanford. I have an M.B.A. and a Ph.D. from Stanford.

REASON: How have the politics of the profession changed? You probably graduated in the heyday of the Keynesian gospel.

LAFFER: That's right. I was a full-fledged Keynesian.

REASON: What changed you?

LAFFER: Politics. I went to the White House for two years with George Shultz, and we tried good Keynesian policies, and we had the unemployment rate increase, the inflation rate increase, and the economy collapse. It led me to believe that maybe the model was wrong. Now, no economists back at the university thought it was wrong. They just said, "Oh, you didn't hold those constants," and they can say that in their little seminars. They said, "Ah, well, they didn't really do a wage-and-price freeze like we would have done it." Silly, silly, silly. Now take a look at what we've done here. We've increased government spending since Nixon came into office, enormously; we've increased the rate of growth of the quantity of money, enormously; we've devaluated the dollar, right, left, and center; we've put on wage-and-price controls. Now the Keynesian model would tell you that output growth would increase, unemployment would fall, and the rate of inflation would decline. What *has* happened?

REASON: Twelve years of economic bliss.

LAFFER: Yes, right, exactly. Now how many of those Keynesian economists from the university, who have never faced the real world, have changed their minds? How many of them who are *in* the real world, like Mike Evans and others, have changed their minds? That's the wonderful thing about being forced to live by evidence, because if you bear the costs of making mistakes, you tend to make less than if you don't.

REASON: Well, now, you probably aren't very often called a moderate when it comes to tax cuts, but Ed Clark, who was the Libertarian Party candidate for president, came out with a $150-billion tax cut.

LAFFER: He did not. He came out with a tax-rate reduction that would, under statical conditions, lead to $150-billion loss of revenues.

REASON: What would happen?

LAFFER: I think you'd lose much less than 150 billion dollars of revenue, and with his stuff I think you'd spur the economy enormously. I think it would be quite beneficial to the country. I have nothing but praise for Clark's tax reductions, and I think he did an excellent job of proposing them, and I think his position is exceptionally commendable. I think the more power Libertarians get and the more appeal they have, the more they'll pull the rest of the world back.

REASON: So you think the Libertarian influence on the fringe of the political system is a positive force?

LAFFER: Oh, Libertarians are not on the fringe. I don't like that word. They're in the mainstream of a lot of my students.

REASON: A lot of your students at USC?

LAFFER: At the University of Chicago, too. The libertarian view of the world is by no means a fringe view; it's a very mainstream view of people who have thought a lot about this subject, and I don't want to have the libertarians categorized as fringe. I am not a libertarian, but I do not find their views either silly or ridiculous or fringy or kooky.

REASON: Where do you disagree with the libertarians?

LAFFER: Well, for sure, the League of Non-Voters. I believe very much in being an activist in your own area of expertise. There are also a lot of other personal views I have that libertarians and I might disagree on.

REASON: Victimless crimes?

LAFFER: I don't know. Maybe when this one's over we'll go into that heavily. But if anything my reason comes down to this: There is a structure that exists, and anyone failing to recognize institutions and operate within them is making a moderate mistake—I don't say serious mistake. So it's not that I wouldn't ever consider being a libertarian. But if I were a libertarian today my influence would be much less. It's silly to reduce my influence. I believe in practicality. Even if you don't think candy is good for someone, if you give the girl a candy so she'll go to bed with you, it works.

REASON: I think that's a good place to conclude. Thank you very much, Professor. ◻

Evers

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springboard to pass into a complete capitalist anarcho-syndicalist system."

The worry of the Communist elites throughout Eastern Europe is well summarized in this revealing diatribe by Karel Horak, editor of *Tribuna*, a weekly published by the Central Committee of the Czechoslovak Communist party:

> *By using demagogic slogans about freedom and democracy, about the need to defend the interests and rights of the working class, about unrestricted freedom of speech and press for everybody, about the need to found "new, independent" labor unions and the like, [antisocialist forces want] to disorient and mislead the working class and the working people, win them over to their own political aims, destroy the unity of the working class, discredit the leading role of the party, legalize the political opposition, and thus create conditions for political pluralism and the destruction of the socialist political system.*

The question that remains to be answered is, Is a socially pluralist *Communist* society possible? For that matter, since one of the principal demands of the striking Polish workers has been for a free press, is a free press possible under a system in which the government owns all the important productive machinery, equipment, and resources?

RIGHTS VERSUS RULE

In considering the future of Solidarity and the proposed independent farm workers' union, no one should forget the fate of Poland's Agricultural Circles, which were promised the right to operate as self-governing labor unions when they were set up in 1956. But they were subsequently interfered with and regulated to such an extent that in practice they became government-controlled unions.

The problem is that, in the absence of a full system of private property rights, there is very little ground to stand on for a labor union that wants to be autonomous. A truly independent labor union with millions of members would not only be a major force in everyday Polish life and an important influence on the country's economy; it would also affect the legal structure. Solidarity will either have to possess rights against the government that amount in practice to private property rights, or it will be swallowed up by the State as the Agricultural Circles were.

In Poland and throughout Eastern Europe, all society is locked into a single system of totalitarian control. If the Communist Party allows large loopholes to appear in that system of control, and if those loopholes are considered by the public to be rights and not permissions, and if the public defends those rights against the State and the Communist Party, then in effect Communist rule has been overthrown.

As we have seen, the ruling Communist parties have been squalling and squawking about attacks on the socialist social structure every time freedom of the press or independent unions are mentioned. The real meaning of this is simply that these ruling elites, who in the past have controlled everything in society, are distressed that people in that society may succeed in fencing off a place on which to stand—a sphere of rights protected against government intrusion. This is what the Albanian Communists are talking about when they complain about the creation of "capitalist anarcho-syndicalism"; this is why the Communist leaders are understandably worried about social self-organization as a trend that could threaten the socialist State. This is why Russia may invade. ◻

Williamson Evers is the former editor of Inquiry *magazine.*

Lee

(Continued from p. 43.)

entire generation towards liberalism and statism by uniformly linking the cause of individual freedom with social authoritarianism/repression and militarism/foreign intervention. For two decades, economic freedom has been sullied by its association with international meddling, involuntary servitude (conscription), and social intolerance. Because of conservatives, a vote for the individual's right to open a business has meant a vote against the rights to smoke marijuana, to read dirty books, and to avoid being drafted. And for two decades a majority therefore voted not to protect economic rights.

FORMULA FOR FAILURE

The liberals' economic disaster of 1980 has given conservatives a new chance. It gives them the opportunity to disentangle economic freedom, upon which they won with a landslide, from foreign adventurism and social regulation, upon which they have no mandate. It gives them the opportunity to create a new conventional wisdom—a new consensus. But if conservatives follow Will's advice, they will fail.

On the economic front, they will merely propose minor adjustments to the faltering welfare state. They will not challenge the moral bankruptcy of compulsory compassion nor the fiscal bankruptcy of the social programs, such as Social Security. They will allow government to continue its rampant growth.

On the foreign front, they will project US forces abroad, supporting repressive right-wing dictatorships in the name of freedom. They will intervene in other nations' affairs, again making the United States the world's most hated country. And they will destroy freedom here at home, by instituting a draft, restricting trade, and unleashing the intelligence agencies.

On the social front, they will attempt to force their morals on the rest of Americans. They will require school prayer, impose censorship, and pass draconian drug restrictions. They will continually abrogate individual rights as they further expand government power.

And they will fail. They will lose their chance to build a new political order and will be swept from power, just as the liberals were before them. And a new political consensus will emerge, one based on a consistent commitment to individual liberty. This new consensus will be attuned to the philosophy of libertarianism that Will so reviles and fears. ◻

Robert James Lee is a Washington attorney and a free-lance writer.

Bahr

(Continued from p. 42.)

mission still will be sitting back there watching the industry, and if they feel anyone has gotten out of line—boom, they're right back under regulation. That seems to be the biggest headache at this time. We'd definitely like to see legislation clarify a number of questions—and that's one. Under legislation, once the commission gives up jurisdiction over something, that's it. I just have a sense that the FCC is going to be sitting in the wings, and when you get into a real hot competitive battle they're going to step in again—and of course could engage in market allocation and everything else....I think it's going to be a dream world for lawyers, and the public doesn't gain by that. You've got to have some decisive decisions.

Lothschuetz is joined by John L. Kirkley, editor of *Datamation*. In a recent editorial essay, he wrote:

The questions are many, the issues are complex, and the outcome is bound to be clouded no matter what Congress, the FCC, or the courts do. But there is one certainty. One segment of our society will be kept extraordinarily busy by these gyrations, and its members will make potfuls of money.... The lawyers, of course. After all, when all is said and done, it's not whether you win or lose that counts, it's the size of your fee.

With the gradual merging of technology over the years, virtually all of the experts agree that some kind of FCC action was inevitable—and that the litigation, which is expected to take years to resolve, was equally inevitable.

BEYOND THE FINISH LINE

Not waiting for the Computer Inquiry II legal dust to settle, AT&T moved in August 1980 to establish domestic and international subsidiaries that would carry the giant company into a variety of new markets. The company's board of directors voted to realign the responsibilities of AT&T's top officers—a move that was seen as the first step toward one of the largest corporate reorganizations in history. FCC chairman Charles D. Ferris, calling AT&T's moves a positive step, said that he thought the company "should be commended."

In December the FCC took a further step toward deregulation by deciding that it does, indeed, have the power *not* to regulate certain segments of the telecommunications industry—namely, firms that do not possess market dominance (in long-distance, for example, that's everyone except AT&T). And in January it began opening up even the *local* phone monopoly by voting unanimously to allocate radio frequencies for use by companies that wish to connect local communications users with satellite ground stations, bypassing the local phone system entirely. Enough frequencies will be provided to allow *16 companies* to offer the service in each locality; Xerox, for one, plans to have such systems in operation in major cities within a few years.

Notwithstanding court litigations and antitrust suits, the question of AT&T's entrance into the EDP industry is no longer a question of if but rather of how. With the damn-the-torpedoes, full-speed-ahead attitude of Bell and its competitors, the telephone will never again be quite the same. And with AT&T officially in the data-processing market and Xerox and IBM in the communications market, it's a safe bet that awareness and use of futuristic systems will spread rapidly. Before the decade is over, telephones will become the central components in entire home computer systems, programmed to turn household appliances on and off, store family financial records, pay bills, and even scan data banks for shopping bargains at neighborhood stores. Surely a bright, exciting future awaits the industry, its customers, and all free-market participants...as they reach out and touch tomorrow. ◧

William Bahr is a manager of product planning in communications systems for a division of Rockwell International. He has an MBA from the University of Kansas.

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June 1981

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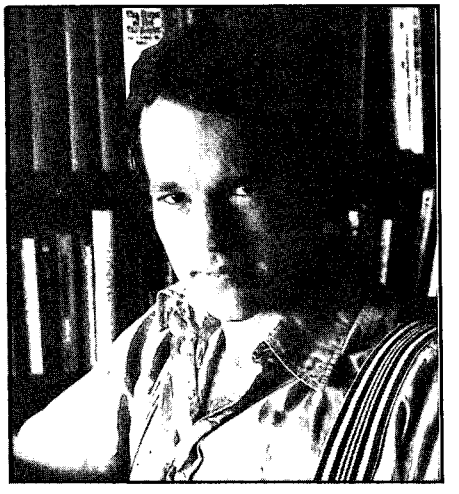
Political Capitalists

viewpoint



James Dale Davidson

I spent a good portion of January 20 whistling a tune once made popular by Gladys Knight and the Pips. In their immortal words, "He's taking that midnight train to Georgia and he ain't coming back."

I'll admit it. I was glad to see Carter go. Goodbye and good riddance were my approximate sentiments. In fact, I was so pleased by the change of administration, that I began to behave like a Republican. I went to the Inaugural Ball and danced to the music of Donny and Marie Osmond and what is left of the Tommy Dorsey band. It was one of the few times in my life that I've danced without feeling the least bit shy or awkward. There were so many people crammed together that no one, even the woman with whom I was dancing, could tell that I had not practiced my four-step at Arthur Murray's.

While I was celebrating the end of Carter's reign in Washington, some of his appointees were no doubt celebrating as well. After four years of merely generous pay and benefits in the upper reaches of the federal government, the young Georgia lawyers were no doubt licking their chops over the prospect of six-figure incomes. They'll be partners in establishment law firms where they couldn't even have gotten an interview four years ago. In short, their years of puttering around, running federal agencies, departments, and commissions, will make them rich. Even if they did not do *good* in Washington, they certainly did *well*.

This is fascinating to me on several counts. It illustrates that "you can't go home again." At least you can't when you're being paid a fortune to stay behind and join the establishment you disparaged from the outside. And more, it is a sign of how positively dull America's business community has been and how dull we have been as citizens to have allowed politicians (lawyers) to impose high tax rates on productive capital gains while not taxing human capital gains at all. Think about it. This disparity has encouraged people to devote their energies to politics. The lawyer who attaches himself to a successful political campaign or accepts a high-level post in Washington is making a rational investment of his time. The more of it he spends mastering the Byzantine arts of political intrigue and influence peddling, the greater his human capital endowment.

We don't often think of the value of human capital because, with few exceptions (such as pro athletes), individuals cannot sell their future incomes streams. But whether they can sell them or not, they will certainly be shrewd enough to equate returns from the alternate uses of their time. The young Georgian who followed Carter to Washington and gave up $25,000 a year in Georgia in order to earn $40,000 in the federal government might have stayed home and started a widget factory. If he had, the chances are he would have needed to work quite diligently to make a success of the widget business.

For the sake of argument, let's assume he could do just that. In four years of toil, he is able to produce a business that will yield him an annual profit of $150,000 (or just the salary he will now get as an employee of a Washington law firm). Under the tax laws, he will be far better off for not having tried to succeed in the widget business and coming to Washington instead to wreak havoc as a presidential appointee.

For one thing, the lawyer can shield his human capital gains from taxation during all the time that he is employed in government. Then, when he starts collecting the dividends from his investment in politics, they will be taxed at the earned income rate, which is substantially lower than the so-called unearned income rate that the widget maker will have to pay on his dividends, which will have been taxed twice—first at the corporate level, then again on his personal return.

Another notable advantage for the political entrepreneur is that he can all but entirely escape the ill consequences of currency depreciation in altering his input prices and screwing up his long-term contracts. He has almost no inputs, and his only long-term contracts are the annual retainers his firm receives for his help in influence peddling and unraveling the deleterious effects of previous political actions on his part.

A literal-minded reader might object that the lawyer's problems are the same in principle as those faced by a productive businessman. That is surely misleading. Not only is the lawyer saved from intricate coordination problems, but inflation does not reduce the real present value of the lawyer's depreciation. Ordinarily, his human capital investment does not need replenishment. And the extent to which a law firm invests in typewriters and other equipment is hardly comparable to the business whose chief assets consist of productive capital implements. By the same token, there are no such things as phantom inventory profits for political entrepreneurs, as there are for the widget maker in time of inflation.

The considerations above indicate why there is so much interest in politics, especially among attorneys. If President Reagan really wants to encourage Americans to be productive again, he should take steps to bring the rewards for productive investment to a par with the returns for investing one's time in politics. This would mean lower-than-ordinary returns for many of his supporters, including those who do much of the gritty work of political campaigning. But only by lowering the rate of return to human capital investment in politics, while raising the rewards of other endeavors, can we discourage more and more people from crowding into politics to rake off all the goodies that can be had there.

I'll learn to dance for the celebration at the end of Reagan's term if there are more moving vans heading out of Washington than there are heading in.

Jim Davidson is founder and chairman of the National Taxpayers Union. His most recent book is The Squeeze.

health & welfare

Helplessness, Self-Esteem, and Sudden Death

By Sandy Shaw and Durk Pearson

Self-esteem is the exact opposite of helplessness, the feeling of being out of control, of being unable to alter the adversities in one's life. Nearly everyone has experienced the feeling of helplessness at some time or another and knows how unpleasant and depressing it can be. Perhaps worst of all, the belief that one is helpless and impotent can become paralyzing self-fulfillment. Recent scientific research has uncovered some of the biochemical mechanisms underlying the helpless state and has provided valuable clues to increasing our control over our own feelings of confidence and avoiding the deleterious effects on health, long-term planning, action, and even life span that can result from feeling helpless.

Animals can suffer from helplessness, too. When experimental animals were repeatedly subjected to unavoidable mild electric shock, they became less able to escape an avoidable mild electric shock, even when they could do so by simply moving away a short distance. In animals and people, the perception of helplessness results in an inhibited ability to respond in new situations, less ability to perceive success, and a heightening of emotionality. When helplessness occurs as a result of a single session of unavoidable shock, this condition dissipates in time. But after a number of such events, the effect tends to persist, interfering with ability to learn the connection between actions and results.

The belief in helplessness is enough to cause these effects. In one experiment, people had to perform several tasks while listening to a loud, raucous noise. One group of the people were told that they could terminate the loud noise at any time by pushing a control button if they felt that they could not continue the experiment because of the clamor. Another group did not have this option. The result was that the group with the optional control button performed better even though they never used it and even though this button was a dummy that did not control anything. But the people's beliefs that they had control over the experiment prevented them from feeling helpless.

Even more startling effects occur. When rats are squeezed in the hand, then allowed to wriggle free and drop into water, they can swim many hours before sinking in exhaustion. When, however, rats are squeezed in the hand just as hard and long and not allowed to wriggle free but simply dropped into the water, they swim about frantically in a poorly coordinated and inefficient manner for only a few minutes, then sink under and drown. A reasonable interpretation is that the rats that wriggled free did not feel helpless because they had "escaped." In fact, some of the helpless rats died in the experimenter's hand before even reaching the water!

Among humans, sudden death from helplessness is not uncommon. For example, old people frequently die a short time after retiring or being moved into a nursing home. Sudden deaths may follow loss of a loved one or loss of status or self-esteem. Among 4,500 British widowers 55 years of age or older, there was a 40 percent higher than normal death rate during the six months following the deaths of their wives. Other studies suggest that the risk of contracting cancer and other diseases is also significantly increased by helplessness. It is likely that the well-documented sudden death of some voodoo victims results from helplessness.

An important physiological factor associated with helpless states is depletion of norepinephrine in the brain. Norepinephrine is an important chemical used by some brain neurons to communicate with each other. NE is important for learning and memory, primitive drives and emotions, motivation, and long-term planning. NE also causes the brain's pituitary gland to release growth hormone, which is required in adequate quantities for proper function of the immune system—the police force responsible for recognizing and destroying bacteria, viruses, cancer, and atherosclerotic plaques (a type of tumor). Giving rats chemicals that specifically deplete brain supplies of NE results in helpless behavior. On the other hand, giving rats chemicals that increase brain NE (such as the nutrient phenylalanine) seems to prevent helplessness under conditions that would otherwise cause it.

We know that depletion of NE can cause depression and that many forms of depression—including amphetamine abuse, schizophrenic, endogenous, and the depressive phase of manic-depression—can be alleviated with the amino acid *phenylalanine,* which increases brain levels of NE (the brain converts the phenylalanine into NE; *Vitamins C* and *B-6* are required for this conversion). In one study, 100 to 500 mg. of phenylalanine a day for two weeks was effective for most subjects in entirely alleviating their depression. In some susceptible persons, high doses of phenylalanine (the exact dose depends on the individual) can increase blood pressure. Therefore, people with high blood pressure should start at a very low dose, perhaps 50 mg., while measuring their blood pressure at frequent intervals and increasing the dose gradually over a period of weeks. Phenylalanine should be taken either on an empty stomach just before you go to sleep or immediately upon awakening in the morning. Possible side effects (annoying but not dangerous) include insomnia, irritability, and headache; reduce dosage if any of these occur.

A deficiency of acetylcholine (Ach), another neurotransmitter, can also lead to depression. Ach is important in long-term planning, learning and memory, sleep, sexual function, and mood. Either *choline* (3 grams/day) or *lecithin* (80 grams/day) increase brain levels of Ach, and both have improved memory and learning in normal human subjects in clinical studies. Acetylcholine precursors seem to be particularly useful in helping to combat the lethargic depression that often accompanies advancing years. *Vitamin B-5* (pantothenic acid or calcium pantothenate) is required for the conversion of choline to acetylcholine in the brain. The prescription drug *Deaner R* (Riker) also increases brain Ach and has been shown to reduce apathy and to increase motivation in senile people and to improve learning and memory in hyperkinetic children. Ach precursors should not be used in the depressive phase of manic-depressive psychosis because they can deepen this particular type of depression.

A good many political problems, such as the propensity of people to look to

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(A limited number of reader questions can be answered in print; personal replies cannot be made.)

powerful governments and charismatic leaders to act for them, may be due to feelings of helplessness experienced by people in response to problems like pollution, wars, energy shortages, and pessimism and uncertainty about the future. When people perceive the outcome as being unaffected by their own efforts, helplessness results. Understanding how this process works, how helplessness is produced and how it can be unlearned, and, especially, the underlying biochemical mechanisms that control these feelings is an important start to overcoming the tragedy of human helplessness.

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References to this column are available. Send a stamped envelope to this publication and indicate the month of the column.

Sandy Shaw and Durk Pearson are consulting scientists, authors, and TV personalities.

money

Stock Bust

By Steven K. Beckner

Just when it looked as though the US stock market was the place to be for the next year or so, the bottom fell out in early January. Though the phenomenon was naively attributed to the omniscient influence of Florida forecaster Joe Granville, it seems clear that the real reason was the evaporation of market confidence painfully built up by Ronald Reagan before and after his election. It was the anticipation of new flows of investment funds generated by tax-rate cuts that had given the stock market the juice to push the Dow over the 1000 mark.

Unfortunately, the mixture of seeming ineptitude in the Reagan transition team and backsliding from those crucial tax-cut promises seem to have quelled market exuberance for the time being. The Dow could easily retrace to 800 temporarily.

At this writing, it's still too early to say for sure whether or not the Reagan administration will renege on its relatively radical fiscal policy strategy and embrace orthodox Republican budget balancing. There's still time to regain the initiative and restore investor enthusiasm by making the tax changes necessary to provide incentives to savings and investment.

It depends on who within the administration and in Congress wins the ideological debate and Reagan's ear. If the Stockmans and Andersons and Kemps prevail over the (Donald) Regans and Greenspans, then the recent slump in blue chip stock prices will prove to have been just a buying opportunity preparatory to a dramatic upturn in US shares—especially those of smaller companies traded on the American Stock Exchange and in the over-the-counter market.

If the GOP opts for the old medicine that has failed repeatedly to generate either noninflationary prosperity or balanced budgets, then investors must once again turn reluctantly to the alternative investments that have been the main thrust of this column.

If, as now seems likely, Reagan follows the course laid out in Senate testimony by his designated Treasury Secretary Don Regan and allows inflationary tax-bracket creep to continue unabated, then the recent depressed precious metals prices will prove to have been the real buying opportunity. Foreign securities could then prove to be more attractive than domestic. And traditionally strong foreign currencies like the mark and Swiss franc could be set for a long overdue bull move, mirroring what has been happening to the Japanese yen.

Because it's so difficult to be sure, it is wise, as always, to have a diversified portfolio. Be in the US stock market, for sure, particularly in second-tier stocks in the high-technology industries. But also, despite the inconveniences associated with buying them, you might consider having a few foreign stocks—for example, those of resource-rich Australia.

South African gold stocks could be another strong consideration, because whatever else the Reagan administration does, it seems likely to take a more congenial approach to that nation. Given the explosive world situation, hold on to, if not add to, your "core holdings" of gold, silver, and platinum, with emphasis on the latter two. You can protect yourself against continued quiescence or weakness in the precious metals by writing call options on your holdings. Gold bulls should keep in mind that even $570 gold (or $15 silver) is very high in historical terms, though considerably down from the highs of a year ago. A period of consolidation of the 1979-80 gains is to be expected.

Consider some speculative purchases of the undervalued "hard currencies." Only futures contracts make much sense there. But don't abandon the dollar. Short-term US interest rates are apt to remain fairly high, so it seems wise to at least have deposits in a money market fund reflecting those rates, if not to lock them in longer-term via Treasury bills or certificates of deposit. Trades in the long-term bond market, though certainly not long-term possession, appear attractive, but they assume falling interest rates—a risky proposition that may not be entirely fulfilled.

There is a growing consensus that the United States and the world are entering a disinflationary period. Few are predicting absolute deflation. But a lessening of the rate of price increase is commonly prophesied. The recent collapse of commodity prices, as well as renewed hope for long-term bonds, seems to confirm this view.

This is to be hoped and prayed for, of course. But if the Reagan administration "hits the ground" crawling and groveling instead of "running" and shies away from bold fiscal policy changes while pumping up military spending, it could soon find itself presiding over $100-billion budget deficits. Hardly disinflationary.

We don't know what will happen. That's why any investment strategy must incorporate a mixture of hope and fear, optimism and pessimism. A good mix of investment vehicles and a willingness to shift weight from one to another will be the most profitable course in what promises to be a very volatile decade in all markets.

MONEY QUESTIONS

Q. What are the differences among ADRs, IDRs, South Africa-registered, and United Kingdom-registered when purchasing South African stocks?

A. An ADR, which stands for American Depository Receipt, is a receipt for a like number of shares of foreign stock issued by a custodial bank. An ADR allows an American investor to trade in foreign securities without having to go through foreign brokers and foreign exchange transactions to purchase or transfer them. The disadvantage is that, in the event of foreign exchange controls or hostile relations with South Africa, it might be more desirable to have in hand the actual foreign shares, even though it is not quite as easy to buy and sell or to get delivery of the stock certificate.

(Continued on p. 64.)

spotlight

Fugitive from Utopia

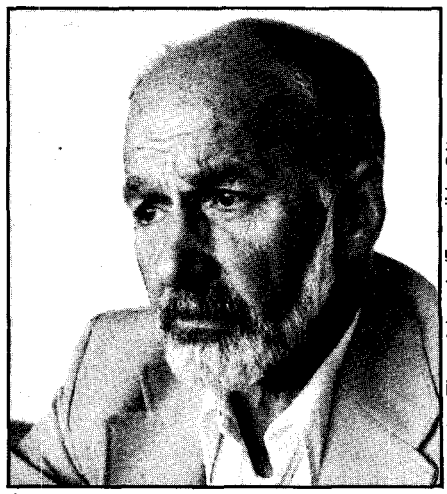
By Patrick Cox

Generations of socialists have hung their utopian hopes on a long succession of countries, but each time they have had to abandon a failed experiment. Now, Sweden has emerged as the darling of the collectivist set. Especially in universities, Sweden is held up as the perfect example of enlightened central planning. If so, then we may be forewarned of its results in the case of Swedish Bertil Sagermark, who is seeking political asylum in this country from what he describes as an all-powerful, self-perpetuating, and tyrannical bureaucracy. Sagermark, whose political dissent started during the Second World War when he dropped out of the Swedish Royal Naval Academy to protest Swedish ties with Hitler, fled the threat of involuntary confinement in a mental institution in 1969. Americans are now quite aware of the Soviet asylums, he notes, but ignorant of their Swedish counterparts.

Sagermark's real troubles started in Spain as far back as 1961. He had contracted with Linden Cranes, one of the largest crane manufacturers in the world, to establish a Spanish business using Linden's crane designs as the basis. The original agreement was that profits from the business that Sagermark was to establish were to be split three ways, between Sagermark, Linden, and the Spanish company. Sagermark, not an employee of Linden, put up his own time and money to make the deal and modify the Swedish crane to meet Spanish standards.

The trouble came when the head of Linden Cranes, a prominent Communist in the housing industry—an arm of government in every aspect but name—used his connection with the bureaucracy to have Sagermark served with papers that charged him with illegally contracting with the Spanish. Sagermark refused to go back to Sweden to face the charges. Instead, he went to New York, where he was approached by representatives of Linden who told him that charges had been dropped and that Linden was prepared to honor the original contract if Sagermark would go back to Sweden to sign the agreement. He did, whereupon he was arrested, fined, and left without rights to the Spanish business. The laws concerning kidnapping in Sweden define "force or fraud" in the course of moving a person as a basis of abduction; Sagermark therefore charges that he was kidnapped by Linden Crane in concert with the Swedish government.

Sagermark and a group of supporters proceeded to form the Swedish Citizens Committee to bring suit against the Swedish ombudsman for justice and to publicize the fact that the Swedish bureaucracy had denied his rights. After only a few months, the money the committee had paid for advertising was returned, and the major newspapers



Jim Molnar/Times Advocate (Escondido, CA)

Bertil Sagermark

refused to give any publicity to Sagermark's case. He was told by the editor of a Stockholm paper that the ombudsman had passed the word that Sagermark was an international embarrassment and that, since newspapers are both heavily taxed and subsidized by the government, publicizing his cause could cost millions.

Nevertheless, Sagermark was able to prove in a lower court that the ombudsman had illegally served him papers in Spain. When Sagermark attempted to recover his confiscated business, however, the bureaucracy stalled and criticized him for years until his notoriety started to be a real threat. He was ordered to undergo psychiatric testing and warned that he would end up in an asylum if he continued. He fled to Norway.

Sagermark recounts how all his friends counseled him to drop the matter. "Bertil, you're an engineer, and you're getting old. You can still make a life for yourself," they told him. "But somebody had to show them that they couldn't get away with it," he says. So he returned to Sweden.

According to a 1965 Swedish law, Swedes cannot prosecute bureaucrats for "official crimes," so Sagermark brought suit against the officials for "common crimes," allowing him to live in Sweden until 1974, when the case was dropped—by the same officials he was charging. Once again, Sagermark fled under threat of involuntary commitment. Two months later the Swedish bureaucracy submitted a group of bills to parliament to be voted on as a package. Although most of the package dealt with funding to the political parties, one law that was slipped in made it impossible for Swedes to sue bureaucrats for any crimes committed during working hours, even rape and murder. European journalists labeled the law the Anti-Sagermark Immunity Law, and the Commission on Human Rights of the Council of Europe in Strasbourg has condemned its passage.

Sagermark is in California now. He applied for political asylum upon entering the United States in 1974. The point is not to stay here, he says, but to gain the notoriety and protection necessary to continue his fight for liberty in Sweden without fear of mental asylum. His tourist visa has now expired, and he is presently engaged in a legal battle for asylum status. Supporting him is the exiled Russian dissident Alexander Yessenin-Volpin, who has been called the father of the Soviet civil and human rights movement. Yessenin-Volpin has himself spent much of his life in Soviet mental institutions and has made contact with the US Immigration and Naturalization Service (INS) in an attempt to testify at Sagerman's upcoming hearing.

Sagermark does not have kind words these days for the Swedish people, who have allowed the all-powerful bureaucracy to develop. "I know only one people who are more dumb than Swedes; that's the Americans. Their dumbness consists of their high regard for Sweden." The fiery Swede credits his country's relative prosperity with its escape from World War II with industrial capacity intact. Modern Swedish problems, as he sees them, can be traced directly to the tax system that destroys incentive by punishing the productive and prohibits savings and real property that allow individual choice. He also blames gun control. "I think it is very important that bureaucrats live under some kind of deadly threat," he explains.

The Sweden Sagermark describes is one of censorship, repression, government blacklists, vandalism, and long lines—"a

warning to the free world." In a letter to the INS, Sagermark wrote: "You Americans are really blind, being so afraid of the Kremlin. What you ought to be afraid of is Big Brother."

But he has high hopes for his homeland. The new generation of Swedes is not as content as the last, he says, so the "downfall of the Swedish welfare state is coming very rapidly now." He wants to go back, to fight the centralized power of the Swedish government. "I suppose," he sighs, "that you can't do away completely with bureaucracy, but if you try to abolish it completely, maybe you can reduce it."

Patrick Cox is a free-lance writer.

arts & letters

movies

- **The Formula**
- **Stir Crazy**
- **The Man with Bogart's Face**
- **Scanners**

Reviewed by John Hospers

• As a drama, **THE FORMULA** is incredibly complex and hard to follow: the names and faces of the various persons involved in some way in this intricate plot sweep by us too quickly for us to recognize them when they recur, and their relevance to the story is often quite obscure. Probably it was clear enough to the film makers, but for an audience seeing the film for the first (and only) time it requires a great degree of concentration to take it all in, and even then not everything fits; anyway, by the time it's half over the viewer is too confused to care. Because of this artistic flaw, the film may have more difficulty getting its message through than if it had been clear and simple—and since the message is a fabrication out of whole cloth, this may be a blessing.

A Los Angeles cop (George C. Scott) is placed in charge of investigating the death of a friend and fellow cop, and a tortuous trail of leads and red herrings takes him to Germany. There, after endless problems and complexities, and the company of an extremely attractive but double-crossing companion (Marthe Keller), he tracks down the secret formula for made-from-coal synthetic fuel that fed the Nazi war machine until 1945 and that (in the film) American oil companies possess but are purposely withholding from the market until such future time as Arabian oil supplies and the high profits therefrom become exhausted and the customers have been bled to death by high prices, while all the time a cheaper and better substitute (the German formula) was available but kept secret. Scott's mission is to find the formula and publicize it to the world, thus breaking oil tycoon Marlon Brando's monopoly of it.

The film exemplifies what Ayn Rand has called "package deal morality." Brando is an oil man, and he also has people killed—we are to accept these two as a package, so that our indignation at murderers will extend to oil men, tarring both with the same brush and guiding us to the conclusion that all oil men do these things. Scott is properly indignant at the revolutionists of the Baader-Meinhof gang, saying to one of them, "You think the people who sent you out to kill are different from the people you kill"—a nice point, which establishes him as a nice guy; but he also throws in a few licks at Chile's government, and apparently we are expected to accept such remarks along with it as part of the package.

Most viewers will not take highly to this film as drama: the plot developments are so hard to follow that many other films about Germany, such as *The Odessa File,* shine out as beacons of clarity by comparison. It is to be hoped that they will not accept it as history, either. According to *Science* magazine (Nov. 1980), American oil companies learned no priceless secret from the German synfuels industry; indeed, they actually helped to construct it: Standard Oil built a synfuels plant for aviation fuel in Germany as late as 1939. ("Trading with the enemy" would indeed be a legitimate charge, though it is mentioned in the film in only one line. And nothing whatever is said about the Communist takeover of East Germany, though one scene occurs there, or about the Russians' use of German oil scientists as slave labor: the film is against the Nazis, and we can't complicate that by being against the Communists too.) After the war, when 175 tons of documents about the German synfuels industry were captured by the American Technical Oil Mission, the documents were examined and abandoned because they contained nothing that wasn't already known. Besides, cheap oil was becoming available, and the German synfuels processes were very uneconomical. "I don't see any conspiracy at all," said Arnold Krammer of Texas A&M University in his article, "Fueling the Third Reich" (*Technology and Culture,* July 1978); "the formulas were well known." The US Bureau of Mines built a German-style synfuels plant in Louisiana, Missouri, in 1949, but it had to be rebuilt in order to be practical. The process was no secret; it was examined and found not to be feasible under current conditions.

The oil conspiracy idea, however, provides a good sounding board for limousine liberals George C. Scott and Marlon Brando, for whom making the film was apparently something of a crusade. Scott becomes boringly preachy in his abuse of the oil tycoon (Brando): "You're not in the oil business," he spits at him, "you're in the oil shortage business." Brando, however, who is supposed to utter the villainous lines, replies with a rather good one when Scott reprimands him for destroying the American dream: "Oil *is* the American dream—without it there ain't no America."

• Impressions of comic effects are probably as subjective as anything in the arts. For my money, Gene Wilder tries so hard for laughs that the effect seems strained. Richard Pryor has a real comic flair, and in **STIR CRAZY** he plays a kind of cross between the Good Soldier Schweik and the loser-with-an-instinct-for-survival who starred in *Seven Beauties.* Some of the situations are quite funny, and considering what a rogue's gallery of losers is collected together in this film, it is much easier to laugh at them than with them. Easiest of all is to forget about the whole thing the minute it's over.

• **THE MAN WITH BOGART'S FACE** does look somewhat like Bogart, until you see him in a facial close-up, and the voice and mannerisms also resemble his. His sidekick does look somewhat like Gene Tierney, and there are other Hollywood figures of the '40s and '50s recognizable to movie buffs of that period, with repeated name dropping to make sure we get the point, if there is one. The detective story, what there is of it, is flimsy and dull and too obviously there just to induce a nostalgia for those early films. There is also a conscious cultivation of similarities to *The Maltese Falcon,* with jewels instead of the bird, complete with an unconvincing replica of Sidney Greenstreet. But to compare this film with one of John Huston's

best is a kind of sacrilege. It's much more enjoyable to see such films over again than to pay money to see sleazy imitations, either of Bogart or of his films.

• There's this one group, see, who have a special kind of ESP that enables them to be **SCANNERS** and tap directly into the brain circuits of other people and drain them of whatever is in their minds (brains?). And then there's a second group that can do the same thing, at war with the first. Whoever wins can presumably win the world. But there are no clues as to who is likely to win in any particular struggle: we just have to watch and see, usually who frowns the most, whose nose bleeds first, and, in one sequence, whose head is blown off first. Since there are no "rules of the game" available to the viewer, no probabalistic expectations can be calculated, and the whole thing becomes a guessing game without clues. It's not that different from the battle of warring clans in Westerns, except that there's no goodies versus baddies here, since they're all baddies using futuristic ESP techniques. Nor does anyone, by the time it's half over, really care who wins; the audience is there only to see the shocking visual effects and the explosions of human bodies, which are greeted with cheers and sadistic glee. One would do better to stay home and consult his own ESP on what film to see instead of this one.

John Hospers is a professor of philosophy at the University of Southern California. His book Understanding the Arts *will be published this year by Prentice Hall.*

language

Yet Another Four More Years

By Richard N. Mitchell

That last president (much to the satisfaction of our typesetter, who never *did* manage to get the chap's name right) has disappeared yet again, this time for good. We'll have no more mush from the wimp to kick around. *Nil,* however, *desperandum.* He leaves behind a whole mush factory bustling with busy wimps. There'll be no dearth of kicking these next four years.

That Department of Education where the wimps make mush may actually be our departing president's only perpetration destined to live in history. (All *right.* So it *won't* live in history. Would you believe *social studies?*) And for a while there we were afraid we might lose the whole blooming thing, and all because of some idle and off-hand vote-grabbing grandstanding by the other guy. (We'll print *his* name as soon as our typesetter says he's ready. In the meantime, though, that typesetter, who is also our staff augur and the only pundit in America to divine correctly the meaning of the turkey on the White House lawn, has glumly pointed out that the name of the new president rhymes exactly with the name of the Prime Minister of a land with triple-digit inflation.)

Well, we needn't have worried. The president-elect hasn't said another word about closing the Department of Education since just before the election. And now he has found a secretary, who says that he's *not* signed on as captain of the *Titanic.* So we can expect that he will not only keep steering that boat but that he will also take care not to shake it. And he seems a good man for the job. After all, you don't get to be a genuine Doctor of Education by subjecting the pretentious claptrap of your professors and colleagues to the unkind and elitist scrutiny of logical thought. And you won't last long as the commissioner of higher education out in Utah unless you know how to live and let live with the unions and the bold innovative thrusters and the institutes for the study of the problematical parameters of prediagnostic preassessment, to say nothing of the legislature and all the deans of the teacher-training academies. But, on the negative side, it must be said that the man *did* take the job, and we do have to wonder why someone who was once a master sergeant in the US Marine Corps would want to sink into such company.

Politicians are in favor of education. The millions of government employees who operate the public schools have convinced the politicians, and us, that what they do in the schools *is* education. That is a lie. The public schools do provide massive public jobs programs, ready outlets for the countless products of the manufacturers of materials and devices and pseudobooks, sempiternal subsidies for enthusiasts and charlatans, and a captive clientele for the ministrations of the social adjusters and the values clarifiers. Education sometimes does happen in the schools, but only as the result of individual enterprise and never out of institutional intention, which is, in any case, and which *must* be, in a government agency, vigilant against the antisocial and elitist influences of individual enterprise.

So send not to know for whom T.H. Bell toils. He toils for government, which flourishes best in the absence of the informed discretion that Jefferson prescribed as at once the fruit of education and our surest protection against government. But don't despair. It's going to be a long, cold winter in the DED. There may be icebergs.

Richard Mitchell is the author of Less Than Words Can Say *and the publisher of the* Underground Grammarian, *from which this column is adapted.*

books

What a Bureaucrat's Really Like

Public Choice.
By Dennis C. Mueller.
Cambridge: Cambridge University Press. 1979. 310 pp. $35.50. $7.95 paper.

Reviewed by Lester Hunt

"But above all, the courthouse: The center, the focus, the hub; sitting looming in the center of the county's circumference like a single cloud in its ring of horizon." That is how William Faulkner describes the satisfaction with which the pioneers in his story *The Courthouse* view the building, the seat of their government, which they have built with their own hands. Its calm Georgian architecture represents the government they have established, which stands for the public interest and not private interest; it is aloof, above it all.

On the face of it, their attitude does not quite make sense. As Faulkner makes very clear, this building and this State are *both* something they have made with their own hands. Indeed, being democrats, they believe they *are* the State. Do *they* seek the public interest more than their own? Are they above it all?

As fanciful as it might sound, the idea that the State is somehow not of this earth is a very important theme in Western political philosophy. Plato imagined a State run by kings who are also "philosophers"—that is, by people who do not see from the limited, selfish perspective of ordinary mortals but understand the human world as a whole and do everything for the good of the whole. He was describing an ideal system, of course, but, as Nietzsche later said, he was also trying to say what the State really is, behind "the barbarically distorted shell" that it shows to the world. He thought that we only understand the State when we understand what the perfect State would be like: in its perfected form, the State would not be human at all; it would be divine. This is also the point of Rousseau's doctrine of the General Will: in a State that is truly a State, and not a mere war of pressure

groups, human beings would be motivated, not by private interest, but only by what is good for everyone.

Surely, most of us suspect nowadays that the idea of the State's divinity is mere foolishness, that behind the shell of waste and greed and power seeking we read about in the newspapers there is mostly more waste and greed and power seeking; that the State does not have a conceivable perfected form; that it is at best a necessary evil. In spite of this lurking suspicion, though, we sometimes act as though this idea were true.

Notice, for instance, that most disputes about whether the State ought to intervene in the market simply take the form of discussing whether or not we have a genuine case of "market failure" on our hands. It is as though two doctors were to dispute whether to cut out Uncle Julius's pancreas simply by arguing about whether he is ill.

Even when someone points out that State intervention sometimes has unexpected and undesirable consequences, the point is almost always made as if, when the legislature tells a bureau to regulate the economy in a certain way, the bureaucrats will do exactly that and nothing else. Perhaps what they are supposed to do, as part of their jobs, is wrong, but they will do what they are supposed to do; they have no reason to do anything else. This means that they are not human beings as we know them. Human beings always have some reason to do what they are not supposed to do.

This preposterous assumption is not anybody's fault; it reflects the present state of human knowledge: after thousands of years, our thinking about politics is still surprisingly primitive. Although scientists have discussed the habits of the housefly and the luna moth so thoroughly that natural history is scarcely pursued as a science any longer, we have been given, at least until very recently, amazingly little in the way of plausible theories about the legislator, the bureaucrat, or the voter. Yet those who have glanced at what theories we do have know that such fauna are far more interesting than *Musca domestica* or *Actias luna*. It is high time that this gap in our knowledge be filled up.

As a matter of fact, Dennis Mueller's book gives some cause for hope that the gap will become narrower in the years to come. It is a survey of "public choice," an academic discipline that is relatively new and growing at a staggering rate. Of the more than 2,000 books and articles listed in Mueller's bibliography, virtually all have been written during the last 20 years.

Public choice, to put it as simply as possible, is what you get when you apply the methods of economics to the gaudy drama of politics. A public choice theorist applies to politicians and voters the same assumptions economists usually apply to businessmen and consumers: mainly, that they all seek to realize some goal or other while sacrificing as little as possible of the other things they value. They maximize "utility" and minimize "costs."

The result of this approach so far has been a fascinating profusion of theories and, while a fair number of them are incompatible with one another, a great many do seem to express a common theme. That theme is that Plato and Rousseau were wrong or, to put it another way, the sorts of arguments that economists have made to show that free markets have a marked tendency to do the right thing cannot be made out for any known political process. Very often, the reason for this is that the goals that political animals maximize are—how shall I say this?—not very closely related to the public interest.

Take the bureaucrat, for instance. Unlike the businessman, he does not seek to maximize profits, since bureaus do not make profits. But surely he does seek something. According to William Niskanen's theory of bureaucracy—the most influential one in the literature—the goals are, for the most part, "salary, perquisites of the office, public reputation, power, patronage," and "output of the bureau" Mueller notes Niskanen's point that all of these goals increase when the bureau's budget goes up and decrease when it goes down. That is, the bureaucrat, unlike the businessman, has a powerful motive for spending more and more.

Public choice is what you get when you apply the methods of economics to the gaudy drama of politics.

Much of the work that has been done in public choice is more or less as disillusioning as Niskanen's. The studies on the prospects for controlling the growth of government, for instance, do not inspire much optimism. The theories of voter behavior under direct democracy (chap. 3) are sometimes hair-raising. On the whole, they give the impression that few of us have a low enough opinion of the decency and good sense of *homo politicus*.

For someone with an advanced knowledge of economics, Mueller's book can serve as an excellent guide to the public choice literature. For most people, though, it is likely to be largely unintelligible. It contains none of the oversimplifying that is normally found in surveys, and the layman will be understandably horrified by the lines of algebra that crawl across its pages like centipedes. He will sometimes find the primary source far easier to understand. This includes the opening chapters of Niskanen's *Bureaucracy and Representative Government* and even Buchanan and Tullock's classic *The Calculus of Consent*. One way or another, though, everyone who thinks about government should hear something of what these people have to say.

Lester Hunt teaches philosophy at Johns Hopkins University and recently participated in a summer-long study program at the Center for the Study of Public Choice at the Virginia Polytechnic Institute.

Snow's Last Tale

A Coat of Varnish.
By C. P. Snow.
New York: Scribners. 1979. 328 pp.
$10.95.

Reviewed by Paul T. Hornak

When one of their number is found murdered, the socially prominent Londoners in this mystery uphold a decorum that is considerably denser than varnish. Piercing it is as tough for the author as for the detectives. The setting is Belgravia, a neighborhood of deceptively plain row houses inhabited by the titled elite. They live conservatively, though, and reclusively except for infrequent parties where the guards are let down and gossip flows. Getting to the heart of such people while still preserving the sedate character of their lives was the challenge the late C. P. Snow set for himself. In 328 close-packed pages, he probed from an awkward variety of angles.

As if to make things hard for himself, he chooses as a guide to this closed circle a semiretired espionage functionary with a calculatedly veiled past. Humphrey Leigh lets us know he hates punks, loves another man's wife, and foresees doom for the upper class—but not much else. His background, however, makes him a natural ally of Briers, a refreshingly breezy chief investigator. Together they plot the whereabouts of Leigh's neighbors on the hot July night when Lady Ashbrook was killed.

Snow's self-imposed handicaps make for faltering center sections after the discovery of the body and before the exposure of the killer. Leigh's friendship with Briers entitles him to just so much inside information. The remainder, Snow

had to disclose in portrayals of the Belgravia suspects: a transplanted American Jew, a rich divorcee, a Parliamentarian, a doctor. These lead nowhere. Lady Ashbrook was eccentric but not hateful; disliked but not despised. Her money arrived regularly from a secret trust, but in unenticingly small quantities. It is plain early on that Snow's well-mannered types lack motives for murder. In the end, detailed examination of their lives seems pointless, however fine the writing by this veteran of British letters.

The murder itself is violent—strangulation and hammer blows—and it is followed up with a trip to the dissection room for a coroner's look at the corpse. These forced and tasteless scenes are supposed to offset the long succeeding calm. They do not.

Paul Hornak is a free-lance writer.

Simonize Your Language!

Paradigms Lost.
By John Simon.
New York: Clarkson N. Potter. 1980.
222 pp. $12.95.

Reviewed by James Chesher

Are you more than just "functionally" literate? Well, don your grammar cap and peruse the following:

- "There seemed a general consensus that the best of the post-war environmental works was by...Maria Nordman."
- "What both conferences shared in common..."
- "If anyone picked up...a pair of Tasco Bantam Hunter glasses, could they please send them back to me."
- "Here are the rundowns on the two hot spots, neither of which have ever been especially praised for their food."
- "Good night from Barbara and I."

If any of the above looked just fine to you, then, dear reader, you are quite likely in need of grammar therapy—or so John Simon believes; and his book *Paradigms Lost* is a good place to begin. If you find yourself hesitating between *lie* and *lay, flout* and *flaunt, uninterested* and *disinterested, who* and *whom,* and a score of other siblings, or if you have no idea what the subjunctive mood requires or whether the comma goes inside or outside of the parenthesis or...then your language is tattered at the seams and no doubt your participles are shamefully dangling.

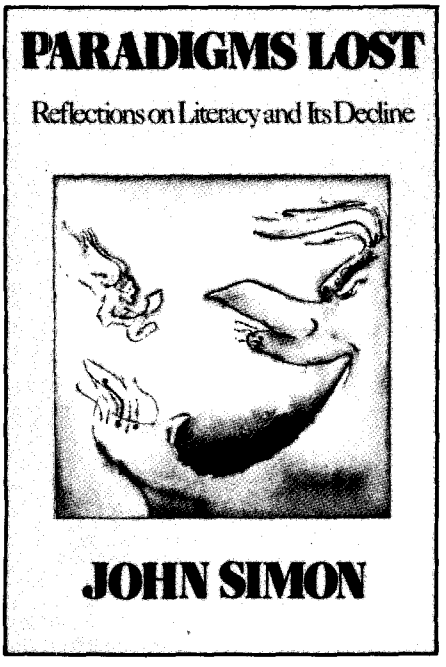
Should you meet John Simon on the street, speak not a word in his presence lest he rip out your tongue. To the list of commandments, Simon has added an eleventh: Thou shalt not maim, torture, or murder the language, under penalty of imprisonment at Babel.

Paradigms Lost is a collection of previously published essays that, in Simon's own words, "touch upon some major and minor abuses of the English language." He offers "little disquisitions on correct usage" in a treatment that is "brief and suggestive rather than academic and exhaustive."

This is an accurate description, but doesn't it make the book sound dull? Besides, who but a few academics has the time, much less the inclination, to worry about the language? Wasn't English 101 sacrifice enough? And is literacy really on the decline just because we slip now and then on slick and subtle distinctions that even some lexicographers are abandoning? In practical terms, "between you and I" means exactly the same thing as "between you and me"—so why all the fuss, and why write a book about such trivialities?

It is against just this view of language, a view held by increasing numbers of writers and educators, that Simon takes his stand, and *Paradigms Lost* is his defense of Standard English. Since the rules of grammar make possible our saying exactly what we mean—when at times we manage to do that—it is folly to abandon them or to take them lightly; incorrect English is counterproductive, and bad manners to boot from those who should know better.

Using the model of craftsmanship, Simon argues that, as long as we fail to respect the basic tools of clarity and logic, to keep them sharp and in good repair, our final product will fall short of our purpose—effective and beautiful expression. It is possible to derive "from every speaking moment the satisfaction we get from a cap that snaps on to a container perfectly, an elevator that stops flush with the landing, a roulette ball that comes to rest exactly on the number on which we have placed a bet. It gives us the pleasure of hearing or seeing our words—because they are abiding by the rules—snapping, sliding, falling, precisely into place, expressing with perfect lucidity and symmetry just what we wanted them to express. This is comparable to the satisfaction of the athlete or ballet dancer or pianist finding his body or legs or fingers doing his bidding with unimpeachable accuracy."



There is no denying Simon's command of the language. He writes as clearly as he would have others write and speak. His appreciation for and sensitivity to nuance, imagery, and rhythm are enviable, and he offers interesting observations on wit and humor, metaphor, etymology, film criticism, and the corrosive influence on the language of special-interest groups—observations made with clever twists of tone or meaning. For example, in objecting to the "unsavory euphemism" *senior citizen,* Simon observes: "They are the old, the aged, or the retired; they are not *senior citizens,* with grandiose implications of political importance well beyond the reduced bus fares and cheaper movie tickets they do in fact receive. Thus the fancy term...sounds, at first, hollow or jeering; later, stale and ludicrous. 'An old man lay drunk in the gutter' is sad but unexceptionable. 'A senior citizen lay drunk in the gutter' is risible."

Simon believes that the erosion of our language is in large measure attributable to two related causes: the political and social liberalism of the past two decades and the cowardice (and, in some cases, ignorance) of those presently in charge of the language—writers and educators. Liberalism has fostered an egalitarian attitude, the net effect of which is the view that teaching Standard English to minorities, and correcting their substandard usage, is to impose the standards of the privileged class upon the underprivileged. Simon quotes the Conference on College Composition and Communication: "We need to ask ourselves whether our rejection of students who do not adopt the dialect most familiar to us is based on any real merit in our dialect or whether we are actually rejecting the students themselves...because of their racial, social, and cultural origins." So there is a growing sentiment among teachers of English that we ought to slacken the reins of language and let people of all social and ethnic backgrounds use English as they please. Let the

language be democratic. There, says Simon, is the road to ruin; to ambiguity, misunderstanding, confusion. We are slipping, backsliding, teetering; and the time for a return to the basics is overdue. "Words mean what I want them to mean," said the linguist Humpty Dumpty—shortly before the celebrated fall.

I fear, though, that I have not done justice to Simon's book. I have not even mentioned his thoroughly enjoyable essays on the superficiality of Barbara Walters ("Verbal Barbarisms"), on the ineptitude of Rex Reed ("Why Reed Can't Write"), and on the mistaken view that computers will replace literacy without significant loss ("Compare with Computers"). Furthermore, I have overemphasized the polemical nature of Simon's essays. Indeed, the book is argumentative from beginning to end, but it is far richer, more entertaining and challenging, than my review has suggested. Simon's wit abounds throughout his work, as does his erudition.

One thing is certain: one cannot read this book without beginning to pay closer attention to the language, without a renewed appreciation for something beautiful that we have come to take for granted. And what more could a reader or an author want?

James Chesher is a trustee of the Reason Foundation.

Laying Away for a Rainy Day

The Alpha Strategy
By John A. Pugsley
Costa Mesa, Calif.: Common Sense Press. 1980. 242 pp. $14.95.

Reviewed by Mark Skousen

Some people might think that John Pugsley had had a little too much wine when he wrote *The Alpha Strategy*. (After all, he recommends wine as the "perfect asset" on page 176.) What?! Bonds, stocks, collectibles, and real estate constitute the "most speculative and dangerous investment markets in the history of the country." This book will never be popular among brokers and dealers!

But Pugsley's thesis should be weighed carefully by the sage investor. "The alpha strategy," he says, provides a way to "beat inflation, avoid taxes on gains, eliminate the risks of fluctuating markets, and insure yourself against recession and shortages." Simply put, the strategy is to become a stockpiler of essential consumer products, barter items, tools, and skills and knowledge in one's business. And the reverse: Keep your money out of income-producing real estate, out of the wily stock market, out of collectibles and other investments that can't be personally consumed or bartered.

Pugsley even sounds a warning to the hard-money survivalists who have hoarded "survival" coins (pre-1965 "junk" silver). Survival coins won't circulate as barter items, he asserts, because the government is likely to impose restrictions and may even confiscate gold again, and "violent price gyrations" will discourage public acceptance of silver coins.

Keep your money out of income-producing real estate, out of the wily stock market, out of collectibles and other investments that can't be personally consumed or bartered.

Pugsley's program consists of stockpiling 20 years' worth of tools, spare auto parts, dehydrated and freeze-dried food, clothing, cleaning supplies, health and beauty aids, fuel, etc. (A complete list of items is found on pages 233-38.) When you ultimately consume these products, you'll have paid yesterday's prices instead of today's. Stockpiling turns out to be the "ultimate hedge" against an uncertain future.

There are problems with the "alpha strategy," of course. Many products can't be stored indefinitely because they spoil, become technologically obsolete, or go out of style. Many items are bulky. All or part of your cache may be stolen, burned in a fire, or destroyed by hurricane, earthquake, or flood. Fortunately, Pugsley doesn't ignore these disadvantages, and he offers solutions.

No, John Pugsley has not written a book in support of junk collectors. He's sounded a much-needed warning to those of us who have become highly dependent on the specialized, industrial complex. Today's society, which Pugsley calls "the world's greatest carnival," consists of welfare, theft, and contrived consumption. It cannot last. Pugsley's prophetic warning is clear and convincing: insulate yourself now before the economy collapses around you in hyperinflation, depression, and chaos. The whole purpose of investing is to be able to buy consumer goods. Start buying now, while you still can!

But even John Pugsley finds it difficult to withdraw his money completely from the sophisticated markets. As an alternative to buying gold and silver, he recommends the purchase of long-term commodity futures contracts in copper, zinc, lead, tin, nickel, and aluminum. Such advice is strictly for high-income investors. Pugsley's low-risk futures ploy is simple: buy far-away contracts in commodities selling close to their costs. Inflation is bound to push prices higher eventually.

But doesn't this approach diverge, both philosophically and pragmatically, from the tone of *The Alpha Strategy?* Why shouldn't the investor take advantage of other low-risk ways to beat inflation in the stock market or real estate? Pugsley rejects the notion that high, above-average returns can be made in the long run using fundamental or technical analysis, but I find his arguments unconvincing. Yes, it's true that studies demonstrate that "past prices show no relationship to future prices," but such studies can't negate the fact that thousands have made spectacular profits in the *short term*. Why shouldn't the shrewd investor speculate in real estate, stocks and bonds, and collectibles, as well as the futures market?

But you can't fault John Pugsley for the major thrust of his new book. Stockpiling will give you peace of mind. Those who don't follow his advice will be sorry—and will pay dearly.

Mark Skousen is a financial consultant, author of several books on investing, and the former editor of Personal Finance.

Soviet Realism

Soviet Strategy for Nuclear War.
By Joseph D. Douglass, Jr., and Amoretta M. Hoeber.
Stanford Calif: Hoover Institution Press. 1979. 154 pp. $5.95.

Reviewed by Michael J. Dunn

For over a decade, our SALT negotiators have assumed that the Soviet leadership is motivated by the same fears, perceptions, and aspirations as we are. This assumption also has been adopted by revisionist historians who interpret the Soviet military buildup as a defensive response to American imperialism. Now, when controversy over the prospect of nuclear war has reached a pitch unmatched since 1962, it is all the more important to face the evidence against this assumption.

Revisionist explanations of Soviet behavior were tenable only while so little information was available on Soviet strategic policy. Douglass and Hoeber fill this information gap by referring to authoritative Soviet military textbooks and citing excerpts from declassified translations of the theoretical journal of the Soviet Ministry of Defense. The reader is con-

fronted with unimpeachable documentation of Soviet plans and objectives.

The Soviets reject the common American view that nuclear war is unthinkable. For them, it is more than thinkable—it is inevitable. Marxist-Leninist doctrine predicts that the capitalist-imperialist West would never tolerate the growing power of revolutionary-socialist nations. Eventually the West is expected to unite in a coalition to destroy socialism's defender, the Soviet Union. The Soviet objective is to avert this destruction with a "coalition war," in which the use of nuclear weapons would be strategically decisive.

It must be recognized that the Politburo is composed of men with personal military experience dating back to World War II. They embrace Clausewitz's principle that war is only one part of the spectrum of politics. Accordingly, the decision to go to war will be based on political considerations. While "detente" is regarded as ultimately infeasible, negotiations can be used to prolong the West's unpreparedness and allow time for the accumulation of strategic materiel. The elements of conciliation, deception, surprise, treachery, and brute force are considered as strategic assets in the conduct of such a war.

While "detente" is regarded as ultimately infeasible, negotiations can be used to prolong the West's unpreparedness.

Crucial to Soviet strategic thought is the clear conviction that a nuclear war is *winnable*. The Soviet Union's historical experience is that massive loss of population and territory does not rule out the attainment of victory. Further, the Politburo are all veterans of Stalin's rule, when the extermination of 20 million countrymen was accepted as an administrative necessity. If a nuclear war can be fought at all, it can be fought to win. With nuclear war as a realistic likelihood in the course of capitalist-socialist class struggle, Soviet strategy sets forth detailed conditions of victory over the West: defeat of enemy military potential, seizure of strategic areas, occupation of enemy territory, installation of satraps, and ideological conversion of the enemy masses (which historically has meant the liquidation of the bourgeois elite).

Soviet strategic literature places extreme emphasis on preemption of the enemy. Extensive prewar preparations would seek to preserve the element of surprise by political misdirection and military diversions. War deployments would be disguised as training maneuvers. Domestic political disruptions would be fomented among the enemy nations. Fleet submarine dispositions would be masked by decoys. Diplomatic initiatives might be announced to lull the enemy into a state of inattention or relaxation. (The authors relate the events of 1940, in which the Soviet Union negotiated a peace treaty with Finland—only to mount a devastating artillery barrage on the Finnish lines, scant minutes before the armistice was to take effect.)

As envisioned by Soviet strategists, the coalition war has two phases. The first phase is a nuclear engagement designed to stun and disable the enemy, resulting in a "correlation of forces" favorable to Soviet victory. This phase would require a succession of nuclear strikes over a period of days or weeks. Each strike would allocate a portion of the Soviet ICBM arsenal to the destruction of strategic targets. The interval between strikes would be used for reconnaissance, missile silo reloading, damage assessment, and riding out any nuclear response from the West. In this way, the progress of the nuclear phase of the war would be "managed" to achieve flexible strategic goals with the minimum expenditure of weapons.

Soviet targeting philosophy transcends the distinction between "counterforce" and "countervalue" objectives. The guiding principle of target selection is to render the enemy incapable of military resistance. Typical targets would include command centers, military installations, electrical power plants, petroleum refineries, and transportation complexes such as airfields and railroad terminals. Mass populations per se are not regarded as relevant target objectives. Special consideration is given to all aspects of target selection, including fallout patterns and demographic effects. While not discussed by the authors, these aspects lead to the conceivable selection of nuclear power plants as attractive targets: destruction of such targets would achieve immediate crippling effects, as well as resulting in the contamination of vast tracts of land, which would interrupt ground transportation and overwhelm civil defense operations.

Although militarily decisive, the nuclear strikes would not be sufficient to win the war. They are regarded as precursors to the *second* phase of the conflict: an extended period of conventional warfare to consolidate the conditions of victory. This phase might last for months and would be supported by reserves of fighting materiel previously accumulated during peacetime. (Current trends in Soviet arms production support the needs of such a strategic policy.) Postnuclear operations would be facilitated by a well-coordinated civil defense program. Soviet civil defense is primarily intended to maintain essential military communication and transportation infrastructures. A secondary objective is to limit civilian losses to five to eight percent of the general population, or about 10 million people. Such losses would be about half of those experienced during World War II...and would be consistent with Stalinist standards of acceptability.

Thus, the coalition war would end in a gigantic mop-up and occupation of the kind imposed on Eastern Europe. The spoils of war would remain largely intact, being the subject populations, arable land, natural resources, and industrial capacity of the vanquished capitalists.

Coming Attractions

Amtrak: Who rides the trains these days? Not Congress. Who pays for it? Not Congress. And who loves to keep Amtrak rolling? Why, Congress, of course.

Warming up in Oregon: If you want to know what the politicos are cooking up, look to Oregon, the home of "bold experiments in government solutions to your problems." And the problem this time is all that heat escaping from your house.

Col. Edward Harwood: The father of the hard-money movement in America talks to REASON in an exclusive interview granted shortly before his death.

DMSO: Snake oil or wonder cure? Science writers Durk Pearson and Sandy Shaw sort through the evidence.

Plus: Alan Reynold's Viewpoint, Timothy Condon's tax tips, reviews of Peter Breggin's *Psychology of Freedom* and Peter Ferrara's *Social Security,* and all of REASON's regular features.

The scenario analyzed in this book is sobering. The evidence cannot be dismissed or denied. It compels the reader to put aside comforting assumptions about Soviet intentions and awaken to an unpleasant reality.

Michael Dunn is a rocket propulsion engineer at the Boeing Aerospace Company.

letters

(Continued from p. 12.)

he allows the bill to go through, so he will veto it again this year like last year, I'm sure.

When I read your article, it gave me chills to think this socialism is so widespread.

June Trimmel
Boise, ID

Sowell vs. Jensen

I am very much in Thomas Sowell's intellectual debt for instruction in numerous areas, not least by his thoroughly superb *Knowledge and Decisions*. Nevertheless, I take issue with his perception of Arthur Jensen's arguments concerning race and IQ (Interview, Dec.).

First: Jensen certainly does *not* "start with the premise that there is a unique black IQ which has a unique genetic explanation"; a grosser misreading of Jensen is hard to imagine. For even among white ethnic and social groups there are large mean differences in IQ (e.g., between Jews and WASPs, or between high and low socio-economic status (SES) groups), and many of these are as large as that between blacks and whites. There is nothing that suggests the black/white mean IQ difference is of a different nature from that of the numerous mean IQ inequalities among white/white groups. Nor is there anything that particularly distinguishes the intellect or "teachability" of a black from a white of similar IQ. Intelligence, as measured by IQ, is clearly of the *same* essence among the races, not of distinct essences, and this fact is amply evident in Jensen's writings.

Second: I have read Tom Sowell's published report concerning the historical rise in mean IQ of various immigrant ethnic groups *pari passu*, or nearly so, with their rise in SES.... It is not true that "most" of these groups showed a rise in IQ corresponding to their elevation in SES. Most of them showed no such rise and required special pleading in order to fit them into the paradigm. And for the one or two groups that did seem to show such a rise, the data were extremely questionable with regard both to the adequacy of the IQ measure used in the pioneering days of IQ testing and to the representativeness of the respective longitudinal samples. None of the data offered would convincingly exclude the alternative hypothesis that mean IQ is in fact quite stable over the decades.

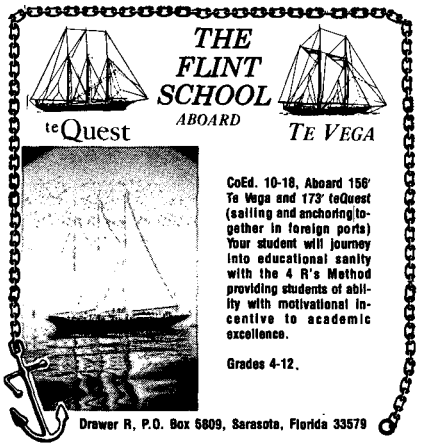
Third: The statement, "Blacks have not risen [in IQ] relative to the national average, because blacks have not risen that much economically during this period of time" posits a direction of causation—that conventional economic success precedes and determines measured IQ—that flatly contradicts the solid evidence we have from heritability studies among whites on this point. This evidence, which is drawn from contemporary American and European white groups tested under uniform conditions and hence is more reliable than historical studies, shows conclusively that for these societies all existing environmental variation (which includes SES inequalities) account for at most only some 30 percent of general IQ differences (i.e., variance) among whites. It is impossible for the measured heritability of IQ among whites to be this high at the same time that the large, environmentally determined increments in IQ claimed by Tom Sowell for 20th-century white immigrant groups have been taking place. One or the other body of data is flawed. This is not the place to decide this question, but for the record, my reading of the evidence favors the "hereditarian" position.

In closing, let it be noted that Arthur Jensen is, in Hayek's term, a "methodological individualist," who tirelessly and emphatically advocates that persons should be evaluated solely in terms of their individual abilities and achievements, not in terms of their group membership, and who believes further that the "macro" statistics of any group (such as its average income, relative representation at ascending levels of any hierarchy, etc.) should be the dependent outcome of the just treatment of its component members. He is, in addition, an admirer of the work of Friedrich Hayek and Milton Friedman. In these respects, he is a libertarian, and an ally.

William R. Havender
Berkeley, CA

Falwell's Folly

Jerry Falwell's problem is that he and his Righteous Right are not Christians. Christianity is a relationship between God and those individuals who love Him. There is no way that such people can work to impose their views on others at the point of a gun, which is what government does. If he wants to halt abortion, under Christ's rules, he has to go out among the young and teach them the stupidity of adultery. Then when the babies arrive out of wedlock anyhow, he should be the first in line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to help them grow in a world that is particularly savage to such mavericks. He does neither.

Christ said He suffers among us in the bodies of the hungry, thirsty, sick, jailed, and we serve or deny Him there, are blessed or damned accordingly. He says this is like unto loving God, a part of worship. Falwell and his predecessors perverted that into claiming that he and the others are saved merely because they accept Christ, a vastly egomanic humanization that dooms all of them, according the the original facts, to eternal misery....

Thomas S. Booz
Plantation, FL

A Rave for Refugees

Murray Rothbard's Viewpoint column on Cuban immigrants in the December issue of REASON was excellent. I had used those same arguments in my campaign for Congress on the Libertarian Party ballot. I was surprised to read in conservative, liberal, and even socialist thought the great fear of the refugees entering into this country.

I will not become one of the many fearful concerning the refugees, I welcome them to our shores and expect that they will be better freedom fighters than many of the residents of this country.

Bruce A. Smith
Buchanan, MI

Communicate with REASON. Letters to the editor should be typed double-space and sent to Box 40105, Santa Barbara, CA 93103.

money

(Continued from p. 55.)

As for "IDRs," in all honesty (after checking several sources) I'm not aware that the beasts exist. I can only guess that they might be foreign banks' counterparts to our ADRs.

As for South African- and United Kingdom-registered "kaffirs," the difference seems obvious. There has always been an active market for South African mining stocks in London, and the shares of the same mines and mining finance houses are often traded there as well as in Johannesburg. The difference is that in London they would be priced in terms of pounds instead of South African rands. Investors might find it a little easier to trade through a British bank or broker than through a South African one. For that matter, an American broker should be able to trade on either market, assuming the stock wasn't available in ADR form in the United States.

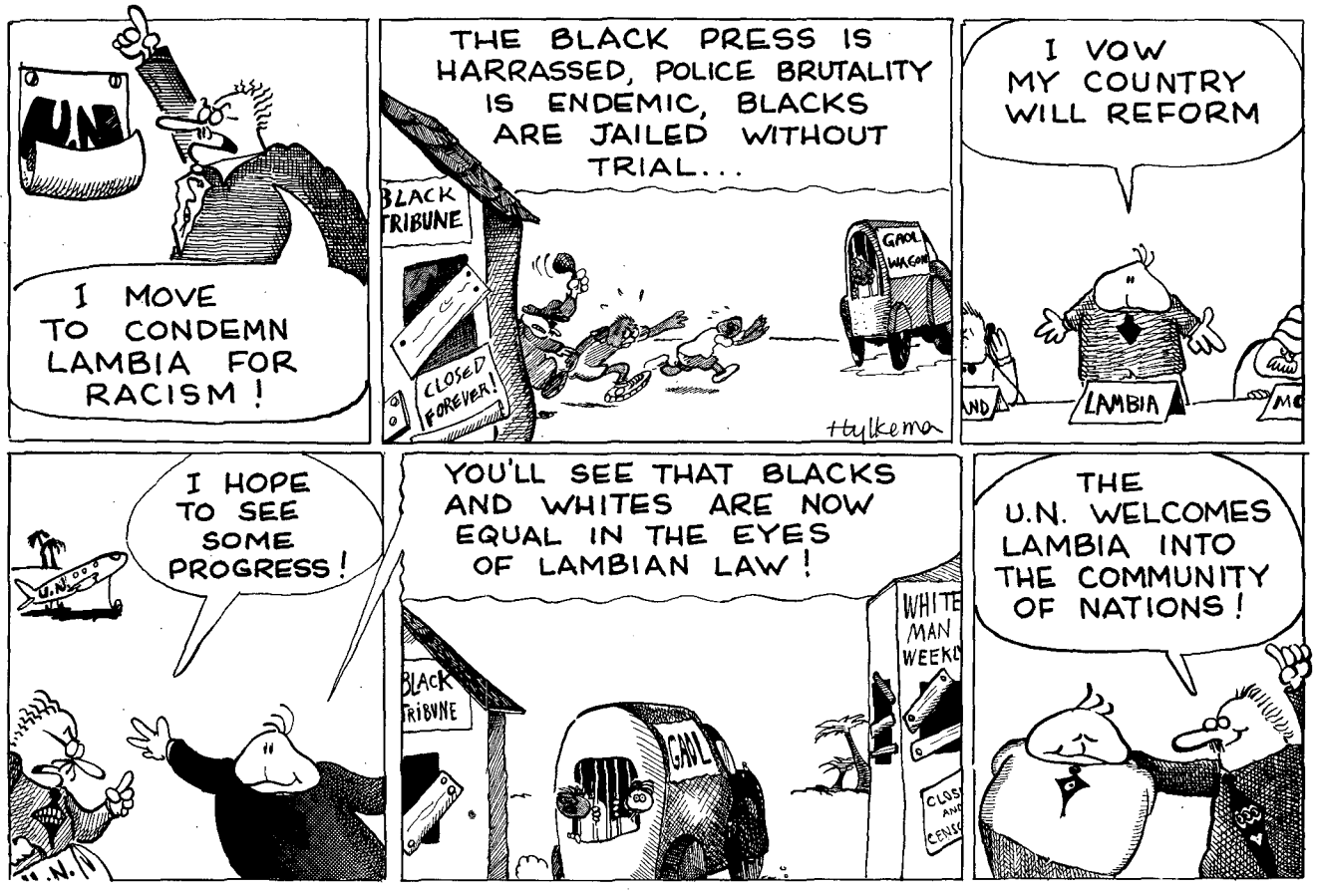
Steve Beckner is a free-lance financial writer, the editor of Deaknews, *and the author of* The Hard Money Book.

Do you have an investment question? Mr. Beckner may have the answer. Send your query along to REASON Money, Box 40105, Santa Barbara, CA 93103.

(A limited number of reader questions can be answered in print; personal replies cannot be made.)

rudebarbs

Randall K. Hylkema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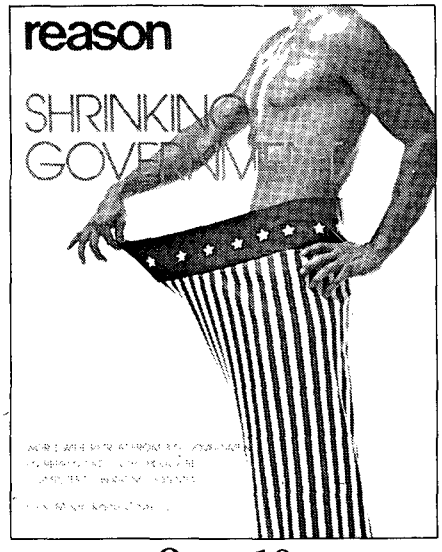

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